

IRIS Quarterly Policy Report

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THE BALKANS AFTER MILOSEVIC: HAPPY END POSTPONED?

Dr. Ognyan Minchev

**Director, Institute for Regional
and International Studies**

The removal of the “strong man” in Belgrade — Slobodan Milosevic — opens the way for new opportunities and new risks on the Balkans. In the course of the last thirteen years Mr. Milosevic presided over the radical revival of the Serb nationalism, claiming the formation of a “Greater Serbia”, replacing the second Yugoslav federation after the end of the Cold War in Europe. The nationalist revival in Belgrade has geared up parallel nationalist upheavals in most other parts of what has been former Yugoslavia. The notorious memorandum of the Serb Academy of Sciences and Arts (SANU) in 1986, the adoption of new constitutional amendments in Serbia in 1990, depriving Kosovo and Vojvodina of their status of autonomy, are among the founding events for the return of radical nationalism in the Yugoslav federation. Frightened by the rising great

Serbian nationalism, the other constituent republics of SFRY generated a process of public mobilization around the cause of a looser federation — confederation, and - lately — for separation and independence.

The moderate democratic forces failed to control this process of public mobilization and gave up to the new nationalist strong men in Zagreb and Sarajevo — Franjo Tudjman and Alija Izetbegovic. The absence of adequate international reaction to the process of Yugoslav disintegration in the first half of the 1990s has brought the tragedy of four wars and hundreds of thousands people killed, tortured and displaced from their homes and communities. The Dayton agreement has proved the first successful attempt to stop the violence and contain the Bosnian crisis at the expense of large international military presence and rising public expenditure on behalf of the West to heal and rebuild Bosnia. The Kosovo crisis has closed the vicious circle of post Yugoslav destruction: the crisis of Yugoslavia has started with the Kosovo Albanians' rebellions against Belgrade in 1980-1982. The Kosovars then claimed equal republican status with all other nations of SFRY. Two decades later — after a period of strong authoritarian oppression from Belgrade, the Albanians denied any potential resolution, short of independence for Kosovo. The NATO action against the Belgrade regime, the establishment of an international protectorate in Kosovo, and the inability of Milosevic to compensate for the immense impoverishment and isolation of Serbia from its neighbors and the world have shaken the iron grip on power of the “strong man” of Serbia. All those consequent events have brought the victory of the Democratic opposition in Belgrade both on the Yugoslav, and the Serb elections in September and December 2000.

Congratulating the long expected changes in Belgrade, it will be irrelevantly optimistic to consider the political end of Milosevic as a “happy end” of the decade long Balkan crises. The removal of the initial cause does not automatically disable its multiple consequences. The complexities of the Balkan post-Yugoslav and post-communist development hold series of future challenges for Serbia and the Balkans as a whole. The realistic assessment of those challenges is the sole factor to promote adequate strategies for irreversible healing and resolution of the Balkan crises of the last decade.

A New Security Environment on the Balkans

For almost a decade, the Balkans have functioned as a cordon sanitaire around the troubled spots of inter-ethnic violence in former Yugoslavia. The international community has expected all countries in SEE to act responsibly in containing the conflicts of the region, to avoid possible spillover effects, involving larger areas and communities into the bitter post-Yugoslav disputes. The neighbors of Yugoslavia suffered and bared all negative consequences both of the ex-Yugoslav crises and of the international efforts to stop and resolve them. The UN embargo over the Belgrade regime has effectively served as an embargo upon all other countries in the region, and in particular — upon the southern and eastern tiers of the Serb neighborhood (Bulgaria, Macedonia, Romania and Albania). The traditional trade routes of those countries to Europe have been effectively cut off — both on surface and on the river Danube. The region saw an outburst of flourishing mafia networks, filling the gap of the legally banned official trade and economic exchange. The gray and black economy of the embargo period effectively penetrated the business institutions and the political system, amplifying immensely the corruption processes in the post communist countries of the region¹. The fragile institutions of post communist democracies have additionally lost potential to carry out the reform processes in the economy and the society. The malfunctioning of the institutions coincided with the dramatic collapse of the region's credit ratings and the ability of the SEE countries to attract decent foreign investment in supporting their economic reforms and privatization.

The Kosovo crisis has brought a heavy international military involvement of NATO against the regime in Belgrade. The international community relied upon the support of the Balkan neighbors of Serbia in order to effectively isolate Milosevic and force him to give up control

¹ See also Stephen Holmes, “Crime and Corruption after Communism”, *East European Constitutional Review*, Vol. 6 Number 4; New York University Law School and Central European University, Fall 1997.

over Kosovo. Macedonia and Albania had to host a huge number of Kosovar refugees, equal to 15 — 30 per cent of their own population. Bulgaria and Romania had to provide access to their air space for the NATO operation. All those activities of the local governments had to be performed in an environment of public opinion scare and hostility towards the mass scale bombing attacks. People were not against restoring the rights of the Kosovars and against punishing Milosevic, but the majority of them were scared of the potential devastating consequences of this major military effort in the region. The democratic governments of the Balkan countries have served their duty at the expense of their own popularity and public reliability.

The *cordon sanitaire* around Belgrade has substantively worsened the environment of post-communist democratic change on the Balkans and has delayed the effective economic and social reforms in the region for almost a decade. The first major consequence of the recent democratic change in Serbia is the partial removal of the *cordon sanitaire* as an international security system from some of the neighbors of today's Yugoslavia. Today Serbia, Kosovo, Montenegro and Macedonia and Albania remain — entirely or to a certain extent — under the security restrictions, encompassing the concept of a *cordon sanitaire*. The dangerous region has been narrowed and the crisis spillover risk has been reduced to the territory where those countries border with each other. The new democratic government in Serbia is expected to serve as the major contributor to the containment of further conflicts in the region, compensating for the decade, in which the Milosevic regime has served as the major trouble-maker. The new situation represents a number of security challenges that the Balkan region may witness in short term and mid-term future.

The Future of Ethnic Conflicts on the Balkans

All major conflicts in the Balkan region have been caused by attempts to control larger territories and hold it for the future by a forceful ethnic homogenization, involving ethnic cleansing, in order to reach the status of a “greater” nation state and regional “super power”. Historically, all Balkan nationalisms have tried this model to a particular extent and most of them have failed - partially or entirely. Serbia has been historically successful to turn its small nation statehood into a powerful Yugoslav (Southern Slav) state and to maintain the lion share of political control over Yugoslavia throughout the 20 century. Such a historical success has boosted the self-confidence of the Belgrade regime in the late 1980s in adopting and promoting the strategy of a post-Yugoslav Greater Serbia as a hegemon of the Balkans. This strategy has caused the greatest tragedy of the Serb nation in the modern times, inflicting a decade of destruction, violence and poverty over the people of Serbia.

The Balkans represent an inseparable variety of ethnic groups, intermixed on the territories of all nation states in the region. Any attempt to remake the state borders, in order to receive an ethnically homogeneous nation is doomed to failure. After the collapse of most “great national ideas” on the Balkans, the attempt of the Albanian communities to pursue an irredentist strategy of “national unification” may prove the last major challenge to establishing peace and stability in the region. The Kosovar Albanians have had the legitimate right to fight against the authoritarian oppression of Belgrade and search for a decent level of self-determination in order to guarantee their rights and freedoms. The international community has supported this claim, involving the most powerful military alliance of the present — NATO — into an action to cut off Kosovo from the control of the Belgrade regime. The eighteen months, following this successful action, though, do not provide evidence that the Kosovar Albanians are able to implement the principles and rules of the free democratic society in their land. The return of the Albanian refugees back to their homes has initiated a mass scale purge of the Serbs, as well

as of all other minorities from Kosovo (Roma, Muslims, Goranci, etc.)². The radical intolerance to any citizens of non-Albanian origin in Kosovo compares to the worst examples of ethnic hatred in the region of the last decade. All efforts of KFOR and the UN administration to initiate decent disarmament of the civilian population and the paramilitary troopers of the KLA have proved unsuccessful. The spillover of organized military activities of the KLA followers to the southeast of Serbia proves the expectations that the liberation effort in Kosovo will develop into a full-fledged strategy of irredentist unification of all Albanians. The actions of the armed Albanian groups in the valley of Presevo, Bujanovac and Medvedja show a clear example of an organized strategy of spillover of a joint irredentist action for “Greater Kosovo” in the South of Serbia towards Macedonia.

In this way, the aftermath of the Kosovo crisis puts forward a major legitimate question: how to contain the radical aspects of Albanian nationalism and irredentism on the Balkans. A key issue in this context is the future status of Kosovo.

Self-determination and Sovereignty: Changing Borders on the Balkans

“The Kosovar Albanians could not live any more in any common state together with the Serbs. The independence of Kosovo is unavoidable”. This position is a firm belief not only of the Kosovars themselves, but also of a growing number of international observers on the Balkans. The future independence of Kosovo may really be unavoidable. There is no reason to keep this community within Serbia or within a joint Yugoslav state (if it survives in time) if the citizens of Kosovo radically disagree with such an option. The issue under question is **how** to achieve a future

² Institute for War and Peace Reporting, Special Report “Chaos and Complexities in Kouchner’s Kosovo”, Issue 107: January 14, 2000; available from http://www.iwpr.net/index.pl?archive/bcr/bcr_20000114_2_eng.txt; Internet; accessed January 28, 2000.

independent status of Kosovo without further destabilizing the entire region. The answer to this question is subject to the following preconditions:

■ An independent status for Kosovo should lead to a sustainable society. This should be a country with its own sources of legal economic development. A system of law and order should function in the land, where the institutions will guarantee the civil liberties for all citizens, irrespective of ethnic origin. The clan-based illegal networks, smuggling and mafia economics should give way to legitimate economic and political order. Unless this precondition is adequately met, an independent Kosovo will be a major source of organized crime and corruption, spilling over the entire Balkans. It will take years under international military and administrative protection before those factors of sustainability are step by step accumulated. Thus, independence is an issue for the future, not for today and tomorrow.

■ The independence for Kosovo should be achieved under the principle of non-violability of borders, upon which the entire European architecture rests. The independence should not be granted as a primary consequence of war. Otherwise, the risk of further chain reaction - separatist claims throughout the region — may well be unavoidable. A reasonable period of change in Kosovo and within Serbia itself should be granted in order to make the dialogue between Belgrade and Pristina possible. In this way, an independent status should be negotiated under active international mediation, with respect to the international law and to the facts on the ground. This process will also take time.

■ Independent Kosovo should not cause a domino effect of spillover claims in the broader region. Today Albanian paratroopers operate in southeast Serbia, claiming liberation of “eastern Kosovo”. What comes next? A “south Kosovo” in Macedonia? Or a “west Kosovo” in Montenegro? Both those countries are small enough and fragile to resist major ethnic crises. A potential split — communal or territorial may question their very existence. And if Macedonia’s sovereignty is

questioned, the old historical “Macedonian issue” may well come at stake? Who is prepared to deal with such an issue, involving all major countries in the region into an ill forgotten bitter dispute?

■ Independence, granted for Kosovo as a primary consequence of war may also affect the broader status quo in the region, achieved after years of painful negotiations and conflict management. Republika Srpska in Bosnia, as well as other parts of ex-Yugoslavia may easily seek a new status by analogy with the Kosovo case.

■ The future status of Kosovo should be finally adopted after an effective evolution of the Albanian public opinion — in Albania proper, Kosovo and Macedonia — towards one simple truth for the Balkans: the era of great nation states and “all nationals in one state” belongs to the past. It is worth reducing the importance of borders, rather than changing them.

Kosovo is not the sole example for an independence claim in the region. Montenegro is on its way of independence too³. Its desire should be respected, if subjected to the same conditions, enlisted above.

There is no obvious opportunity to reduce the risk of ethnic conflict, based on the factors, formulated above. Irredentism, spillover crises, domino effect, transferring ethnic claims from community to community on analogy basis — those are the effects of a decade of violent disintegration, which has de-legitimized all major arguments and normative frameworks, capable to maintain stability and balance in the region. Principles and rules should be re-imposed within a process of careful containment of potential future crises and step by step confidence building among communities in an environment of democratic development and international mediation.

³ See Montenegro government’s “Platform for Talks with Government of Serbia on New Relations Between the Two States”, *Europa South-East Monitor*, Issue 19, January 2001, Center for European Policy Studies, Brussels; available from: <http://www.ceps.be/Pubs/SEEMonitor/Monitor19.htm>

Ethnic Rights versus the Rights of the Citizen

Multiethnic society is the inescapable future of all Balkan countries whatever the present composition of their population and whatever policies they may adopt to reduce the importance of ethnic plurality in their lives. This basic premise has several important consequences.

First, it is useless to involve one nation’s resources and the resources of the international community in order to achieve change of borders under the argument of a presupposed ethnic and national homogeneity after the new territorial configuration is being achieved. There is no physical opportunity to achieve an ethnic homogeneous nation in the region, avoiding the instruments of ethnic cleansing, or arbitrary assimilation, both of which are not tolerated in present day Europe. The most likely consequence of a forceful change of borders is the inevitable bitter revisionism of a territorially deprived neighbor, seeking an adequate environment in the future to reclaim its former territorial possession. Therefore, the arbitrary change of borders remains the most important fuel resource to continue the “Balkanization process”⁴ as a perpetuum mobile in the future. Reducing the importance of borders in the region, and applying the European style regionalization is a much more reliable instrument to put all your ethnic nationals into the Fatherland of a daily cross-border communication and cooperation, rather than building new walls across newly established borders.

Second, all Balkan nations should pay substantive efforts to change their historically burdened concept of nationhood, solely built on ethnic integrity and unity. The Balkans have suffered a historical delay in modern nation building, and the shortage of institutional and civil resources to found a new nation upon, has been compensated with the overrating of ethnicity and — in some cases — religion, at the expense of civil equality and integrity. The civilian elements of nationhood should be emphasized

⁴ For more details on the so called “Balkanization process” see Maria Todorova, *Imagining the Balkans*, Oxford University Press Inc, 1997

and encouraged in the final stage of modernization process on the Balkans, coinciding with the process of European integration. Many people on the Balkans view their state as a tribal instrument of defense and oppression against the members of the “hostile tribe”. This ethnic tribalist vision deprives the Balkan citizens from the opportunity to claim much more important assets from their own nation state: guarantees for their citizens’ rights, education and health opportunities, adequate economic policies and effective law and order etc. A nationhood of effective institutions - guardians of rights, delivering services to their citizens and supporting the expression of their culture and identity is a much more dignified purpose of nation building for the Balkans of the future. More dignified and promising, rather than the ethnic nationhood of tribal instinct that has jeopardized 150 years of modern history of the Balkan nations.

Third, but not least, the approach to deal with ethnic diversity through institutionalizing corporate political ethnic rights should give priority to the institutionalization of guaranteed civic equality and liberty of the individuals. The Balkans represent an institutionally disintegrated reality. Both the effects of post-communism and the decade long ethnic wars have deprived the citizens in the region from the implementation of their fundamental liberal democratic rights as individuals. Crime, corruption, poverty and social injustice have prevented the people from seizing their opportunities as citizens. The basic instrument to compensate for that civil deprivation has been the search for ethnic-communal integration directed against the other ethnicities as rivals or enemies. The rival communities integrated under the authoritarian command of power-thirsty elites, deprive the community members of their citizens’ rights. Those elites maintain their grip on power through constantly generating conflicts with the neighboring communities and through searching greater and greater opportunities to split, to secede and separate from the larger national entities. This type of tribal nationalism flourishes under the circumstances of weak states and fragile institutions, impotent to deliver to the people as citizens.

One of the major mistakes of the international community throughout the 1990s has been to legitimize such a corporate ethnic division process under the concept of “communal” or “collective rights”. Encouraging “collective rights” at the expense of the fundamental human rights of the individuals as citizens directly feeds the process of communal fragmentation, where smaller and smaller communities take the chance to claim independence and go for a separate “nation state”. The individuals as citizens are the sole holders of their natural human rights. Any communal reference to the notion of “rights” might draw legitimacy only from the free will of its members as citizens. The practical impact of this simple truth, embodied into the liberal democratic system brings us to the essential strategy to develop adequate institutions — guardians of civil liberty and equality, **before** any collective derivatives of rights could be thought of and practically enforced.

The instruments of civil integration into a civil community should receive priority as means of containing and resolving the ethnic conflicts on the Balkans. If such an approach proves successful, the implementation of the “collective rights” will be much less painful and arbitrary. No society is entirely immune against militant communal secessionism (as the examples of Northern Ireland, Spain and some others in Europe show), but only strong liberal democratic system is capable to put this risk under control. A functioning system of liberal democracy and citizens’ rights is the priority number one for the Balkans. The right to secession, self-determination and disintegration comes next — just in case no other option works.

Organized Crime and Corruption

The organized crime networks in SEE have developed as a considerable regional, and — lately — international factor, capable to influence the regional security environment in longer terms. The painful post-communist institutional destruction, the ethnic wars, the embargo upon Belgrade and the absence of any decent alternative to make one’s living for a growing

number of Balkan youths — all those factors have considerably contributed to the development of the criminal and mafia networks in the region.

There are two basic sources of organized crime expansion in the near Balkan future, which have to be addressed analytically and contained with a detailed strategy both of the countries in the region and of the international community. The reality of clan based social and economic life of the Albanian communities on the Balkans, accompanied with a very low level of institutional capacity to ensure law and order both in Albania and Kosovo represent **the first source** of organized crime expansion. The institutional environment in Albania proper is slowly improving after the dramatic events of 1997, but the level of effective performance of the state institutions is very low, and the corrupt relationships between the illegal economy and the power holders intensify. The Kosovo crisis of 1998-1999 has considerably strengthened the influence of Kosovo Albanian illegal networks on the territory of Albania proper. For the most of the years 1999-2000 there has been no effective border between Albania and Kosovo, which has produced a joint space of operation of the local and the international organized crime syndicates. The continuing tough relationships between the government of Albania and the major party of the opposition — the Democrats of former president Berisha — do not provide any hope for a consensual and integrated national policies to reduce organized crime and the corruption, inter-linked with the operation of the major political factors and with the dealers of the shadow economy of the country.

The most intense challenge to the region from the organized crime and mafia networks stems from the territory of Kosovo, and — to an extent — from the neighboring and integrated into the process territories of Western and Northern Macedonia. The organized resistance of the Kosovar Albanians to the oppressive Belgrade regime has produced a strong link between the major Kosovar clans (organizing the resistance) and the Albanian Diaspora in Europe and the US, providing the funds

for the weapons purchases throughout the years of the Kosovo crises⁵. This is the way, how the KLA has emerged and developed into the major force of Kosovo Albanians resistance to Milosevic? Officially unconfirmed but intense suggestions blame on the KLA and its supporters the organization of strong networks of drugs trafficking, funding the purchase of weapons. It is pointed out that the so called “Balkan route” — a smuggling channel from Afghanistan to Western Europe — that supplies 80% of Europe’s heroin is now dominated exactly by the Kosovo Albanians⁶. All those networks — for drugs and weapons smuggling, for illegal trade with “white slaves” in the Balkan region, as well as for any type of unregistered and illegal commercial activities — have dramatically expanded after the successful NATO action to oust the presence of the Serb army and control in 1999. The slow process of assuming control over the territory on behalf of the international UN administration, the failure to disarm and pacify the KLA and its leaders, the disintegrated clan based structure of social life on the territory — all those factors have contributed to the development of Kosovo into a safe heaven for all illegal practices, enlisted above. As a consequence — we witness more and more successful attempts to turn the local organized crime structure into an internationally effective force, covering the Balkans and reaching up to the West of Europe. There is no easy answer how to deal with the complexity of such a challenge. One thing is for sure: the containment and the reduction of organized crime, based on the illegal Albanian networks might be based predominantly upon the adequate development of decent public institutions both in Kosovo and

⁵ AIM Press correspondent in Tirana Ramzi Lani pointed out that Albania gets \$1 million per day from immigrants remittances, of nearly 500,000 immigrants who work in Greece and Italy and that considerable amount of hard currency circulate in the country due to the illegal traffics of drugs, prostitutes, stolen cars, etc. Ramzi Lani, “Albania: nine years later”, *AIM Tirana* Dec 16, 1999; available from <http://www.aimpress.org/dyn/trae/archieve/data/199912/91216-007-trae-tir.htm>

⁶ Stratfor, *The Global Intelligence Update* “Kosovo: One Year Later”, March 17, 2000; available from <http://www.stratfor.com/CIS/specialreport/special26.htm>;

Albania proper. Institutions, capable to impose law and order and generate stimuli for legal economic performance and business success. The responsibilities of the UN administration in this respect are crucial. An important step to resist the criminal spillover of the above mentioned networks is to resist their operation on the territories of the neighboring countries. In the case of Macedonia, the growing influence of the illegal Albanian networks has a direct impact on the growing potential for an inter-ethnic explosion in this small country.

The second source of potential organized crime expansion on the Balkans reflects the opportunities of economic performance of the former Belgrade regime oligarchy in the post-Milosevic era. For almost a decade, the Yugoslav economy has functioned under the rules of a systematically corrupt authoritarian government, holding an overall control of the national economy. The international embargo upon the Milosevic regime has forced the entire economic life into the underground. No concept of legitimacy could be applied neither to the restricted privatization process nor to the handling of the financial system. Huge financial assets have been misappropriated by the oligarchy and exported abroad.

The democratic transformation of post-Milosevic Yugoslavia will face its major challenge in imposing adequate public control over the illegal economic networks reproduced by the former regime. The very process of political change largely depends upon depriving the political police and the other organized remnants of the regime from their control over the national economic assets. Like every post-communist democratic process, the transformation in Belgrade will unavoidably be accompanied by a considerable degree of de-institutionalization and mal-performance of the newly created democratic institutions. Following the example of the other post-communist countries in the region, the ex-communist oligarchy of the Milosevic's regime will rapidly de-centralize and produce series of local, institutional and professional mafia groups, competing with each other, but successfully cooperating against any legitimate effort to impose law and order in the land. Provided the size of the country, and the assets accumulated throughout the 1990, those Serb mafia networks

may prove capable to affect and operate not only on Yugoslav territory, but throughout the Balkan region.

Throughout the decade of the 1990s, when regional cooperation and joint democratic development has helplessly given way to ethnic wars and destruction, one international regional power has really cooperated and has created a joint regional space for operation — this has been the power of organized crime. Serb networks have sold weapons to Kosovar Albanians to shoot against Serbs, Albanian mafia groups traded successfully with the “major villain” in the neighborhood. There are no borders and ethnic barriers in front of the shadow Balkan dealers and their international associates. The Balkan “international of crooks” would not allow a decent strategy of regional development and cooperation to be effectively implemented in SEE. The success of such a strategy would inevitably mean the decline of their business and power. Therefore, any successful strategy for development of the Balkans, for the inclusion of the region into the European mainstream requires reduction of organized crime and cutting off its systematic links to the corrupt officials and governments in the region. This is not simply an economic and civic issue. This is an issue of redistribution of political power in favor of legitimacy and democracy, against the effective criminal control over the entire public and economic life of the Balkan societies. This is an issue, directly shaping the alternative options for the future of the Balkans: a region of the future European mainstream with decent and effective rules and institutions, or a region of instability and unrest, remaining a painful periphery of Europe.

The International Community and the Dilemma of Balkan Security

The Kosovo crisis of 1999 has been an exceptional case in the long history of international interventions on the Balkans throughout the modern age. With all its dilemmas of legitimacy and long term accomplishment, NATO action has been the first integrated effort of a cooperative international community to resolve a Balkan crisis on the basis of principle and humanity. The Balkan region has seen a number of interventions, cause by the Great Powers' competition and power play throughout the 19th and 20th century. Those interventions have been the engine of the process, popular as "Balkanization". Mobilizing the public opinion of the West, the NATO resources and the political support of all governments of the West and in the region, the international community has performed the first successful action of the NATO as a security system for the entire Euro Atlantic space. The greatest challenge in front of this effort has not been the success of the military campaign. The greatest challenge is whether the unity of the international community will stand until the decade-long chain of Balkan crises is finally terminated and a new reality of democracy and cooperation is established throughout the region.

SFOR and the international administration in BiH are functioning for almost five years after the Dayton peace accords. Among many positive activities — the economic reconstruction, the healing process in Bosnian society after the war, one basic achievement and one basic failure fill the record of BiH as an international protectorate. The achievement is that the international protection has stopped entirely the hostilities and the war. The failure is that billions of dollars injected could not create even the background of an organic community: Serbs, Croats and Muslims continue to live parallel lives in a nominally common nationhood. The situation in Kosovo represents even a worse case. Drawing their legitimacy from a decade of humiliation and suffering, the Albanians of Kosovo strongly refuse to live together with the traditional

minorities of the land like Roma and the Turks, not to speak at all about the Serbs, even if the Albanian leaders pay a lip service to "multiculturalism" and respect for minority rights.

The communities in the war stricken zones on the Balkans will need time to resolve the issues of their own identity, to adapt to the new world around them and to pass the process of reconciliation and normalization with their neighbors 3 old and new. They will have - at the same time - to take care of their living, to restore their economy and decent institutions. There is nobody else, but the international community to serve as an interim support authority, lasting for years if not for decades. The big question about that is who pays for such international missions. The UN is facing bigger and bigger financial problems, caused by suspicious governments of powerful member states (like the US) about how the UN money is being spent. The European Union is willing to bare the financial responsibilities of the Balkan reconciliation, but the question is for how many crises and for how long? The problem gets even worse if one pays not only money, but with the human lives of its soldiers. This is the environment, in which the new US administration of president elect George W. Bush has declared its decision to withdraw the US troops from the Balkans.

Such a decision may well be legitimized within the intense debate about the European Union common security and foreign policy (CSFP) development. CSFP may well lead to a particular "division of labor" on the both sides of the Atlantic, affecting to an extent the structures of NATO. The peacekeeping operations on the territory of Europe could be considered a priority for the European wing of NATO with such a transformation of responsibilities, considered within the transatlantic debate. Let's repeat — the "division of labor" between the EU and the US in serving the NATO security agenda **might** be the answer to the present problems, and such a division **could** happen in the future. One thing is for sure — such a transformation of the transatlantic security structures will take time and it is a subject of a longer process, rather than of a short series of acts like the potential US troops withdrawal.

There are particular dangers for the Balkan region and for the entire system of European security, if the US military presence on the Balkans is subjected to a rapid decrease:

■ The first danger is related to a potential security vacuum, emerging on the Balkans as a direct consequence of US troops withdrawal. Who is going to replace the US troops? The EU countries might do that, but this should be a process of long-term and uneasy restructuring of the European countries' responsibilities within the Balkan peacekeeping missions. The US troops could be replaced by soldiers from the Balkan neighbors of the protectorate zones, but particular historical attitudes may jeopardize their effective mission. As a consequence of the unsettled responsibilities among the Atlantic partners after the US withdrawal, the hostilities between the warring parties in Bosnia and Kosovo will most probably resume. The Balkan conflicts contain high potential for spillover. Both Bosnia and Kosovo — if reopened in a hot phase - will almost certainly spillover in Macedonia, Montenegro, Sandzak etc. This is how a security vacuum — even if it is only psychological (“the US is out now”) will practically reopen the Balkan conflicts' agenda for years to come;

■ The united action on the Balkans of all NATO countries, together with all other democratic nations in Europe has created the notion of the “international community”, as an integrated authority, capable to enforce the democratic principles of public behavior in a legitimate way against all major violations of humanity and democracy. This integrated role of the international community has not only moral, but very important geopolitical consequences. The notion of “Balkanization” represents a process of intense fragmentation — ethnic, territorial and communal — under the strong pressure of powerful external — international factors. This is what has happened on the Balkans in the last 150 years: the ambitions of the local small nation states have been tolerated by the competition of the Great Powers, and the combined foreign and domestic

competition for “national greatness” has created the amorphous, fragmented reality of the Balkans. The only chance to rebuild the present Balkan community as part of a normal European space for the future is to avoid international competition of interest, or even substantive diversity of interest within the international community towards the Balkans. If the US participation in the Balkan security equilibrium is sharply reduced, two major misbalances of interest may be expected.

First, the restructuring of the Balkan peacekeeping responsibilities among the European partners may sharpen the diversity of interest in Europe. We should not forget that Europe is **designed** to become a common political and security space, but still is a space of shared national interest and diversity. If not prepared to act in a united way, the EU security arrangements may cause bitter disputes rather than effective action. In such circumstances the EU peacekeeping efforts will be reduced to a military presence with low efficiency, feeding a growing security vacuum that may reopen the local conflicts.

Second, a rapid US withdrawal will revive Russia's appetites to resume its role of a Great Power on the Balkans. Russia has never hidden its alternative to the US and NATO geopolitical interests in Europe. Having been deprived from its imperial control over Central and (partially) Eastern Europe, Russia views the Balkans as the only possible zone of its imperial return to Europe. The new Russian government under President Putin has a real tough domestic agenda to deal with. The only potential source to improve the government's ratings and the Russian state standing is a major international success. There are hardly chances to get such a success anywhere, but in a zone of security vacuum on the Balkans. The return of Russia will re-start the Great Powers play on the Balkans, even if the other Great Powers have no enthusiasm to play. Russia's return will encourage ex-communists, anti-Western nationalists and ambitious populists on the Balkans to take control over the power instruments. A long lasting de-stabilization and multiple conflicts will follow, turning the Balkans into a European Caucasus.

Russia is a former empire, searching for its new identity in a changing world. It would be unfair - both to the newly democratizing Balkan countries, and to Russia itself, to seduce the new Kremlin masters to exercise its old imperial instincts on the Balkans against its own interest.

The Balkans remain a test case for the ability of the EU and the US, united into a transatlantic partnership, to create and reproduce a new security system for the Euro-Atlantic space. In an environment of decreasing dangers of a classical military nature, the peacekeeping operations and the containment of local crises, together with containing terrorism, arms proliferation and local dictatorships turn to be the major security challenges. The models of sharing responsibilities in order to meet those challenges should be tested patiently and flexibly. One of the most reasonable instruments to deal with the growing diversity of interest between the both sides of the Atlantic would be to speed up the enlargement of NATO process. There is no excuse to keep the Balkan countries with positive democratization and economic reform records out of the Alliance for the undetermined future. NATO accession for Bulgaria and Rumania in 2002 will support the regional stability and security more than other intense and costly efforts of the international community on the Balkans.

THE SECURITY SITUATION IN THE BALKANS AND THE EXPECTATIONS FROM THE NEW US ADMINISTRATION

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Since the end of the NATO military campaign in Yugoslavia and the fall of Milosevic from power, the new security situation in the Balkans has entered a stage of reduction of tensions. Several processes are occurring simultaneously. The security environment is changing and new tendencies are emerging. New national, social and political paradigms have been sought and advanced, which are the basis for a reshuffling

¹ The assessments and views expressed herein reflect only the author's opinion. In writing this article I have used also ideas, materials and data, obtained at international conferences, meeting and discussions, for which I would like to express my deep gratitude.

of social and political powers. Key positions of national and international concern are being redefined and the bilateral and multilateral relations are being reviewed. Priorities are being redefined and new political and international configurations are being established. International factors reassess the results from their involvement into crisis management, apply “lessons learned” in political, international and military aspects and redefine their future goals and priorities.

The regional security trends describe a pattern where the major “eternal” regional issues remain unresolved, but already in a new correlation.² Regional and international factors have adopted new qualities and even new status in the context of the crisis. But the processes are divergent as regarding different countries as well as in terms of diverse directions of regional political, economic and military relations. This is the reason why the consolidated during times of crisis image of a “common Balkan interest” is endangered and has even started to disintegrate.

In this situation the logic of stabilizing the region requires that the process is further guarded and sustained by multilateral external support. The possibility of losing the vision of deep involvement by all the important factors inevitably provokes the sense that the processes could be reversed, to one extend or another. The investments that have been made so far for establishing and developing regional motive powers of positive processes requires much more time. In this context any sign of reassessment and redefinition of the involvement on behalf of the US, European countries, the Security Council, NATO, OSCE and the European Union will be critical for the dynamics and orientation of the processes.

This article is focused on the security situation in the Balkans after the fall of Milosevic from power and is addressed to the possible motives, goals and approaches in the policy of the new US administration regarding Balkan security.

² A definition given by Dr. Ognyan Minchev, Director of the Institute for Regional and International Studies, Sofia.

The Security Situation in the Balkans

Following the end of NATO military operation in Yugoslavia the security situation in the Balkans is stabilizing. The bitter experience from the last three years once again demonstrated that the security of any state in the region depends on the security of its neighbors, because every significant event affects neighboring countries and self-isolation is practically impossible.

The transition towards a new political regime in **FR Yugoslavia** is characterized by perspectives for resolving the problems generated by Milosevic’s governance, as well as by the emergence of major risk factors for the fragile stability in the country and the region.

The results of the special parliamentary elections, held on December 23, 2000, reaffirmed the will of a significant part of the population to break with the former regime and provided the necessary prerequisites for strengthening democratic reforms. Eight parties and coalitions participated in the election. In the new 250-seats Skupstina of Serbia the Democratic Opposition of Serbia has 176 seats (64,21%), the Socialist Party of Serbia has 37 seats (13,67%), the Serbian Radical Party has 23 seats (8,55%) and the Party of Serbian Unity has 14 seats (5,33%).³ The Serbs in Kosovo voted in three municipalities of the province and the Kosovar Albanian did not take part in the elections.

The composition of the new Serbian Skupstina clearly indicates the polarity in the Serbian society, divided basically in two large groups — adherents of the Democratic opposition and the still undifferentiated left-wing political space. The performance of Milosevic’s Socialist Party shows that it has preserved its influence among part of the Serbian society. The low voter turnout (approximately 60%) in comparison with the federal presidential elections and the successful mobilization of the hard

³ The following parties couldn’t overcome the 5% threshold and stayed out of the Parliament: the Serbian Renewal Movement with 3,76%, the Yugoslav Left with 0,38%, the Democratic Socialist Party with 0,85% and the Serbian Social Democratic Party with 0,78%.

electorate of the relatively small Party of Serbian Unity (established by the radical nationalist Zelko Raznatovic-Arkan), which participated in coalition with three other parties, enabled it to receive 14 seats.

The new Serbian government of Zoran Djindjic has the following priorities: restoring the trust in state institutions, renovating and renewing the economy, fighting corruption, strengthening social protection of the most vulnerable groups in society, negotiating with Montenegrin authorities about regulations of the federal relations, developing regional cooperation and further integration in international organizations. But the serious problems between the subjects in the Federation remain in the political situation.

The situation in **Monte Negro** is extremely complicated. The small republic is at the height of its international political significance and this is clearly indicated by the generation of more or less realistic ideas for behavior and expectations of the future. But the abundance of alternatives negatively affects the possibility of formulating a consolidated position and this fact decreases the attractiveness of the Montenegrin cause.

Observers of the Balkans claim that Monte Negro has no special motivation to accept a change in the status of Kosovo and this will definitely be a criterion when deciding whether to stay in the federation or not. Some experts point out, however, that there is no guarantee that if Monte Negro secedes from FRY, similar disintegration processes will not start on its own territory.⁴ There is also an opinion that Monte Negro cannot survive with its own resources (for example, the revenues from tourism in the best years are less than the necessary funds for buying food and basic commodities), especially in regard to the non-corporate behavior of Serbia.

These issues give rise to problems in political circles in the republic, notwithstanding the ongoing campaign in favor of independence⁵

⁴ In the end of 2000 and in the beginning of 2001, a meeting of the clans in the republic took place. Most of them declared that in case Monte Negro secedes from the federation they would join Serbia.

⁵ President Djukanovic again reiterated his position in his New Year's address: "The New Year is the beginning of a great, realistic hope for Monte Negro and its people. We will decide our future by ourselves."

and the preparations for a referendum on the future of the federation (which will probably held in the middle of 2001). The People's Party left the governing coalition after the government has adopted a platform for changing the relations with Serbia. The platform envisages that FR Yugoslavia will be transformed into a free union of two internationally recognized sovereign states. It is also suggested that within the competencies of the Union would include defense, external security and foreign affairs, providing for common market and convertible currency. The Union would have a one-chamber parliament.⁶

The Yugoslav and the Serbian authorities met with restraint the requirements for redefining the relations between the republics and insist on deciding the problems through negotiations. President Kostunica suggested a project for a new constitutional arrangement, which envisages broadening the competencies of the republican institutions, for the federal authorities remaining common foreign policy, defense, customs control, transportation, regulation of securities market and monetary policy.

To a great extent, the Western allies have "contributed" to this problem, by encouraging the Montenegrin demands for independence during the Milosevic's rule hoping that this will weaken his regime.

The **Kosovo** crisis is in general contained, notwithstanding that there isn't a single problem that has been solved. The concentration of political attention and instruments for rapid and effective reaction is big and reliable enough so to guarantee a relatively stable environment for the next steps of crisis management.

But the developments in the province in the last six months indicate that the process of stabilization should be military guarded and decisive measures should be taken. The absence of a real deterring factor can give the wrong signal to one of the sides to start resolving the key problems by force.

⁶ On this occasion the Democratic Party of Socialists, which participates in the governing coalition put forward (January 8, 2001) a proposal for dismissing the Parliament and start preparations for special parliamentary elections in Monte Negro not later than March 2001.

The behavior of the Albanians has been assessed in the countries in the region as a typically “Balkan”. Their demands are extreme to provide space for maneuvering before the positions of the new Serbian authorities and that of the international community are consolidated. An essential aspect of the analysis is to what extent Albanian policy is formed independently. This question is in the air in the Balkans, because there are no public answers to the questions: who exactly supplies the different groupings with arms, how the policy of recently opposing leaders was consolidated, and how for a few months the poor and illiterate highlanders became political and military strategists.

Straining the situation in Southern Serbia is viewed as a desire to provide another trump card in eventual negotiations. But as the driving forces behind the events have (formally) broken away from Hashim Taci it is very probable that a new “independent” player will appear at the negotiations. The Army for the Liberation of Presevo, Medvedja and Bujanovac — about 1000 people, with light armaments, controls ten villages in the 5-km buffer zone on the administrative border with Kosovo. The differentiation of this conflict center is obviously aimed at arousing the reaction of the new authorities in Belgrade, which could not be especially different from that of Milosevic. The success of this strategy would simultaneously discredit Kostunica as a democrat and will reduce the support granted to him by the West. The fact that he did not succumb to the challenges, occurring in November-December 2000, does not mean that there won’t be a successful attempt in the future. Some observers fear from a more serious connection of the activities in the Presevo Valley and the strategy of the powers in Albania, united around former President Sali Berisha. Such a connection is quite probable in the context of Berisha’s undeviantly pursued struggle for a “Greater Albania”.

The implementation of the results from the local elections, which took place on October 10, 2000, won convincingly by the Democratic Union of Kosovo, is slow and difficult, mainly because of the competition between the major political forces of the Kosovar Albanians, their

aspiration to win over the international representatives in the process of establishing municipal structures. But this is the lesser trouble. The graver problem is that the Kosovar Albanian boycotted the December 2000 elections. The conclusion from these elections is that the question of Kosovo independence is still on their agenda despite the democratic changes in Belgrade. If their problem was really the authoritarian regime of Milosevic and the nationalistic Serbian policy in the last dozen years, they would support the process of democratization and contribute to the ultimate ousting of nationalists from the political scene.

This sounds reasonable but it did not happen. As the President of Bulgaria remarked “I guess, it is not because democracy is not important to them, but because they want it within the frontiers of a separate state of their own, the creation of which is being proclaimed as a basic priority of all Albanian political forces in Kosovo.”⁷

In this period the main efforts of KFOR has been to neutralize the ethnic violence and guarantee the security of the population of the province. KFOR tightened the control on the administrative border with Serbia and the state border with Macedonia after the complication of the situation in South-eastern Serbia, resulting from Albanian separatist groups’ activities, aimed at terminating the traffic of people and arms in the 5-km buffer zone.

Observers from the region in general share the opinion that Kosovo has a high military strategic and military-political value for NATO. The control over this territory can be compared to the effect of enlarging the Alliance south of the Danube River. The difference between them is that the enlargement is a matter for the future, and the control over Kosovo is a fact and deserves to be invested in for the future. Moreover, the status of Kosovo de facto as a protectorate greatly facilitates NATO policy — this is the policy of a protector towards a protectorate, i.e. taking into consideration sovereignty and borders, promises are not mandatory.

⁷ World Economic Forum, Davos, 28.01.2001; available from <http://www.president.bg; Internet; accessed February 1, 2001>.

The role of **Russia** in the Kosovo case should be viewed essentially in the context of the question for strategic partnership with the West (above all with the USA) — was there such a partnership after the Gulf War and is it still on the agenda? In Kosovo, and during the whole crisis, the Russians were in general ineffective, which validates the fact that their foreign policy has exhausted its resources to have a real influence in Europe and that the military factor will need a longer time to be reformed before turning it into an actual instrument of new Russian policy. Besides the strengthening, and consequently the stabilization, of NATO military presence in Kosovo and the region as a whole will have, in practice, a deterring role towards Russia in regions where it does have interests: the Eastern Mediterranean, the Middle East and North Africa. The prevailing opinion is that as after Dayton as well as after Rambouille one of the main tasks was to reduce Russian influence in Southeastern Europe to the smallest extent possible. With the fall of Milosevic this task was accomplished. The question is whether this puts an end to the “honeymoon” between them and what happens next. It is obvious that the United States wants to resolve this issue before progressing into building up the national anti-missile defense system. It is obvious also that Russia would like the greatest possible role in deciding European security issues.

The efforts of the UN mission in Kosovo UNMIK are directed towards establishing new municipal structures, ensuring the participation of co-opted members (representatives of minorities, appointed by the UN High Representative) in their activities and improving the cooperation between different parties and ethnic communities.

The situation in the FR Yugoslavia is additionally complicated by the negative economic performance. The external debt exceeds USD 12 billion, the internal debt is USD 11-12 billion and unemployment is about 50% (official numbers 30%) of the active population. The state has approximately USD 6 billion kept idle in foreign currency, belonging to the citizens. There is a reduction of incomes — the average monthly salary in Serbia is about USD 45. The currency reserve is about USD 385 million (135 million of them in gold, 200 million in foreign currency

and 50 million in securities and stocks). Energy problems are of special concern and energy supply restrictions have been introduced.

On the whole, the new correlation of the political forces in the country will durably define the development of political processes in the future. Despite this, there are a number of unresolved complex problems; the potential of ethnic and social tensions is intact. The new model of coexistence with Monte Negro in a common state and a new status of Kosovo will be difficult to bring into line. New security challenges are emerging in relation to the growth of criminal (including economic) activities, traffic in arms and illegal drugs etc. The new democratic forces in FR Yugoslavia for years to come cannot deal with the criminal groups, which until recently were closely connected with and controlled by the former regime. At the same time, it is very probable that after the expected reforms of the secret services and the Yugoslav army that some of their former employees to join these groups and using their experience, channels and contacts to widen the scope of criminal activities.

The downfall of Milosevic is viewed in a different way — with enthusiasm in the countries of the European Union, somewhat skeptically in the United States and with suspicion in the countries of the region. Most probably because of the dynamics of the processes and the still insufficient information, the problems of Serbia are being interpreted on a rather low level — is there a democratic alternative in electing Vojislav Kostunica a president or he will return to the nationalistic practice of his predecessor? Is he a nationalist or is he a true democrat? Is Milosevic going to be prosecuted by the international court? How will the people survive the winter? But the key questions of Serbia's internal development are the following:

— To what extent the surprising easy manner Milosevic was overthrown as a result of a real political process or there was the typical for the communist regimes deal?⁸

⁸ A.Lukashenko, President of Belarus, first made such statement.

— What are the real alternatives to Serbian nationalism, which could be invested in?

— To what extent Milosevic's influence over state institutions and the population is sustained?

— How many more harsh winters the Serbs will survive and is this going to bring back to power through a democratic process Milosevic or his heirs?

— How will the influential elite of Serbian military and secret services develop?⁹

After a short political crisis, the situation in **Macedonia** is well in hand. The problem is that one unstable coalition was substituted by another unstable one. After the Democratic Alternative left the governing coalition VMRO-DPMNE succeeded in establishing a coalition, including the Democratic Party of Albanians.¹⁰ The Democratic Party and a group of independents ensured the necessary support in the Parliament (65 representatives of 120 in total)¹¹. The Coalition is being kept in power by the cooperation with the Albanian party and this is important for the region for two reasons. On the one hand, this is a coalition of the most powerful forces, which were and still are against the policy led by Serbia

⁹ Federal Supreme Defense Council, chaired by Yugoslav President V. Kostunica, dismissed Milorad Obradovic, Head of the Second Army, Milan Zec, Head of the Marine Forces, among other officers. However, Nebojsa Pavkovic remains as Head of the General Staff, a fact that is explained with his moderate position during the development in October 2000 and after that.

¹⁰ The negotiations held with the leadership of the other party of the ethnic Albanians - Party of Democratic Prosperity - on its participation in the ruling coalition produced no results.

¹¹ Democratic Alternative, Socialdemocratic Union of Macedonia, VMRO-DPMNE, Socialist Party and Liberal Democratic Party remained in opposition.

and Milosevic and against any attempts of restoring this policy. But on the other hand this political formula makes the link between the internal situation in Kosovo and the development of Kosovo extremely strong.

The main problem for stability is the economic situation in the country. More than 257,000 people are unemployed according to official data. Inflation rate reached 14,7%. The external debt amounts to 1,4 billion dollars. The external debt is estimated to 500 million dollars and is rising. The external trade deficit of the country for 1999 is 604 million dollars. The foreign currency reserve is about 740 million dollars (the National Bank has approximately 440 million dollars and the commercial banks reserves are about 300 million). This situation provides arguments for exerting pressure, including social pressure, against the government. Obviously, there are expectations, that due to the changes, Serbia will start rapidly attracting as aid as well as investments and the recent interest in Macedonia will be diminished. This possibility provides a ground of the ex-communist party to portray itself as a better partner of the new Serbian government.

The interethnic relations in the country remain complex and to a great extent depend on the meeting the major demands of the Albanian population, including constitutional changes and establishing the post of vice-president, which would be occupied by an Albanian minority representative, proclaiming Macedonia a bi-national state, appointing ethnic Albanians to high-offices, including the ministries of internal affairs and defense. Progress was made on the issue of education in Albanian, and with the mediation of the OSCE the Parliament drafted and passed a Law on Higher Education. Problem resolution is facilitated to a great extent because the constructive participation of the Democratic Party of the Albanians in the government. After the successful performance in the local elections this party has remained the most influential party of the Albanian community in the country.

The transition of Macedonia to market economy and guaranteeing its security will be dependent on the external factor, which also defines its foreign policy priorities: accession to European and Euro-Atlantic

structures, receiving loans, participation of foreign companies in privatization, making use of the possibilities, provided by the Stability Pact for Southeastern Europe, regional co-operation development.

The security situation in **Albania** is characterized by political instability, sharp political confrontation, reaching to violence, breaching the constitution and the laws, high level of crime and corruption, especially in some regions of the country. The high level of instability is maintained by the contradictions in principle between the major political forces. The Albanian Socialist Party strengthened its position as the most influential political force by the successful performance at the local elections in October 2000. The parties, constituting the ruling coalition Union for the State, signed a cooperation agreement, obliging them to accomplish the necessary legislative and administrative reforms, recommended by the international factors after the local elections took part.

The leadership of the main opposition force — the Democratic Party — refused to accept the local elections' results and made an unsuccessful attempt to consolidate the right-wing opposition parties. The attempt to organize a protest campaign of the opposition brought about affray and skirmishes with the police. The opposition rejected the OSCE and Council of Europe initiative for accommodating the contradictions between the different parties about election procedures and legislation concerning the forthcoming parliamentary elections.

The IMF leadership gave some positive assessments to the economic policy of the government, which brought about to a relative economic growth, activating the Albanian capital market, reduction of the basic interest rate, inflation of about 0%, etc. The 2001 budget proposed by the government has envisaged a 7.3% GDP growth, inflation between 2%-4% as decreasing the budget deficit from 3.7% to 3.1%. The following areas have been pointed out as priorities: physical infrastructure, education, health care and social protection as creation of appropriate conditions for stable economic development on the basis of the micro-economic stability achieved during recent years.

The foreign policy priorities are the efforts to employ the opportunities, provided by the Stability Pact for Southeastern Europe and protection of the rights of the Albanian population in neighboring countries. In principle, Albania expressed its readiness to restore its diplomatic relations with Yugoslavia but this is conditional on the implementation of some prerequisites.

In **Bosnia and Herzegovina** the situation is relatively stable. The domino effect (that could be triggered by the events in Kosovo), which everyone feared during the NATO air campaign did not happen. The fact that at the last parliamentary election the so-called "non-nationalist" forces did not gain the expected advantages indicates a certain cyclical pattern of the developmental level reached. That is why a key question remains the establishment of a single Albanian state.

Despite the tendency of public trust increase in some moderate political formations and the results from the Dayton Agreement implementation, the nationalist parties remain a decisive factor in society. The ethnically based division prevails as well as the heavy dependency on external financial aid and foreign investment; an overall economic strategy is missing. Over 1 million refugees still cannot return to their homes.

The general election that took place on November 11, 2000 in Bosnia and Herzegovina did not substantially change the political status quo. The three major nationalist parties — Serbian Democratic Party, the Croatian Democratic Community and the Party for Democratic Action — confirmed their significant role in the political life of the country. In parallel with the elections a referendum took place in the cantons populated predominantly by Croats. The referendum demonstrated the growing efforts of the Croatian nationalists to change the status of their community in the framework of the Federation of Bosnia and Herzegovina or at least to make it equal to those of the Serb community.

The international community makes efforts to establish multiethnic state government structures and to establish the necessary legislative basis for their functioning. The Bills on State Court, Pension Security and Uniform Identity Documents were passed. The first squad of multiethnic

border police was established. There was control over the recruitment policy in the state administration, dismissing the persons accused in hindering the economic reforms and corruption, hampering the return of refugees, etc. Despite this, the suspicion between the Muslim, Croat and Serb community, accumulated during the war, renders difficult the work of common institutions.

The reconstruction and restructuring of economy is being implemented in unsatisfactory pace. The increase in GDP was low during the last two years and, in general, it is below the 1990 level. The privatization and banking sector reforms experience difficulties. The economy is heavily dependent on international aid; the foreign investors' activity is low, due mainly to the political and legislative insecurity. Organized crime and corruption cause significant losses, which gave ground for harsh criticisms and reactions on behalf of the international community (to some estimates the state loses about DM 500 million of uncollected levies and taxes, which amounts to almost half of the budget).

The establishment of joint armed forces of Bosnia and Herzegovina has been accompanied by significant difficulties and it will hardly be implemented in the short run despite of some partial accomplishments, which were not further developed (for example, the formation of joint army command structures in the Federation). The most important problems in the area of military affairs are the lack of a common military policy and common military doctrine, the regulation of the interaction between the armed forces of the different communities, etc. The military representatives of the Federation of Bosnia and Herzegovina and of Republika Srpska are only interacting within the Standing Committee on Military Affairs and within the Military Mission, established in the beginning of April 2000, for intercommunication between the armed forces of the Federation and Republika Srpska. The positive signs in this situation are the implementation of the initiatives for reduction of 30% of military expenditures for 1999, reduction of 15% of the armed forces of the Federation and Republika Srpska in 1999 and 2000 and reduction of heavy armament and military technical equipment.

The international presence and SFOR will continue to have a decisive role in sustaining Bosnia and Herzegovina as a state, for its democratic development and guaranteeing its stability.

The situation in **Turkey** is developing under the influence of state institutions for further democratization of the country and its adaptation to the EU accession requirements. The government has undertaken measures towards economic stabilization to master the financial crisis, to counteract Kurdish separatism, Islamic fundamentalism and terrorism. A relatively negative impact continue to be exerted by the contradictions between the ruling coalition parties and the lack of consensus between them on the implementation of some reform policies, problems in economy and especially the stabilization of the banking sector, corruption, etc.

The disagreements within the ruling coalition, constituted by the Democratic Left Party, the Nationalist Movement Party and the Fatherland Party, refer to the pace of introduction of some EU criteria in the area of protection of human rights, including broadcasting programs in Kurdish on the national TV and radio stations. Despite these contradictions, the prerequisites of crisis emergence and destabilization of the situation are missing.

The problem of eventual prohibition of the main opposition party — the Virtue Party (with 103 seats in the 550-member parliament), is constantly adjourned by the Constitutional Court because of a possible political crisis.

The Government is preparing amendments in Constitution and basic laws referring to the democratization of society, i.e. abolishing capital punishment, reforming judicial, banking and taxation systems, agriculture, improving administration of mainly Kurds inhabited vilayets in South Eastern Turkey, etc. The undertaken urgent measures for taking control over the financial crisis and macroeconomic stabilization of the country lead to the improvement of some indicators — economic growth of 3.7 %, including about 4.5 % growth in GDP, low inflation — 45 % in 2000 compared to 68.8 % in 1999, and low unemployment (7.2 % and 7.3 %, respectively). Albeit serious problems remain — the foreign

and domestic debt service (in 2000 USD 21 billion have been paid on foreign debt service, and the domestic debt rose to about USD 45 billion), the foreign trade deficit has increased (about USD 30 billion while expected USD 17 billion), the fall in agriculture production has not been overcome. The decisive impact on financial and economic stabilization was due to the assistance of international financial institutions and EU, including the extended loans of USD 2.8 billion by the IMF in 2000, Euro 150 million by the EU as well as the negotiated earlier credits within the arrangements with IMF and World Bank.

The government multiplies its efforts for making the country a main energy center for oil and gas transit from the Caspian region to other parts of the world. The Protocol for funding a gas pipeline project “Blue Stream” from Russia through the Black Sea has been endorsed (in Turkey 100 km of the pipes have been installed). Meanwhile, the gas pipeline from Iran is under construction on Turkish territory (in the section to the Turkish border it is ready for exploitation). The preparation for implementing Baku — Cheyhan oil pipeline have been completed.

Destabilizing factors for the situation in the country are radical Islam organization activities (Hisbullah), terrorism, corruption and organized crime. The operations of armed and security forces against armed groups of PKK and Hisbullah aiming at their complete defeat are still under way.

Foreign policy priorities are directed at integrating Turkey in EU, protecting Turkish minorities' rights abroad, improving the relations with Greece, deepening the contacts with the US, the so-called North Cyprus Turkish republic, Southeast European countries, the Middle East and Caucasus. Turkey tries to participate on an equal basis with EU member states in common European security and defense policy.

The situation in **Greece** is stable, which is owing to the unity of the ruling party PASOK, the problems within the major opposition party New Democracy, the lack of contradictions between political forces regarding basic national priorities, the development of positive trends in Greek economy, etc.

The government's main efforts are directed at sustaining the macroeconomic indicators, speeding up the privatization of huge enterprises of national importance, improving the mechanisms of social safety and undertaking measures to reduce unemployment beneath the current 11%. By including the country from 2001 in the European Economic and Currency Union complementary measures should be undertaken for speeding the structural reform, introducing new technologies, increasing the competitiveness of the Greek economy, reducing the unemployment, etc.

The main problems referring to the domestic security of the country are related to the activities of some terrorist organizations and especially the 17th November Organization.

By pursuing active foreign policy Greece strives for playing a leading role in the region, involvement in the international community's plans for post-crisis recovery, ensuring broad economic presence in the Balkan countries and improving relations with Turkey.

The Cyprus problem got a special meaning within the advancing negotiations for Republic of Cyprus joining to the EU and strengthening the efforts of different international factors for its resolution. The conducted five rounds of indirect talks between President of Cyprus Glavkos Kliridis and President of North Cyprus Turkish Republic Rauf Denktash mediated by UN Secretary General Kofi Anan in 2000 did not lead to concrete results on the discussed issues (state system, territorial division, refugee problem, freedom of movement and settlement, confidence- and security-building measures between the two communities, proprietary issues, using the island's infrastructure). The main reason for this is keeping to the initial positions on basic problems - the future state system and EU membership of Cyprus¹².

The situation in **Romania** is being influenced by presidential and parliamentary elections results (26.11.2000), constituting new state

¹² While Denktash insists on establishing confederation between two independent and internationally recognized states which is to join EU, Kliridis supports bi-zonal, bi-communal federation (on rotation governing principle) the establishment of which should not retard Cyprus joining the EU.

authorities and government's efforts for economic stabilization. The winning presidential and parliamentary elections Party for Social Democracy in Romania¹³ formed a one-party government and signed a declaration with parliamentary represented National Liberal Party, Democratic Party and Democratic Union of Hungarians in Romania for respect of democratic values, isolating extremism, on country's priority for development and integration in European and Euro-Atlantic structures. The parliamentary support is fragile and indicates that the parliament's activity and government's stability will be influenced by the differences of their interests.

Regardless the recorded at the end of 2000 process of economic stabilization (for the first nine months of last year compared to the same period of 1999 the industrial production has risen by 7.8%, the most important is the rise in energy, extractive and processing industries, the import has risen by 24.2% reaching USD 7.62 billion) there are still some negative trends. The foreign debt for the same period has increased by 1.9% reaching USD 9.222 billion. The inflation in 2000 exceeded the projected 40.7%. The number of unemployed people is about 11% of the working force.

There are no signs that some changes in the foreign policy of the country can take place. The efforts are primarily focused on meeting the EU requirements in different spheres, further extension of the negotiations for EU membership, intensification of the dialogue on NATO accession, achievement of interoperability with NATO's arm forces, development of the cooperation with the United States, participation in regional initiatives, programs of post-war reconstruction and transcontinental infrastructure projects. There is a problem that is to be solved: that is the necessity to endorse the rights of the Hungarian minority (that is about 1.6 million), which includes the inauguration of a Hungarian University in Cluj as well as the restitution of the land of the Hungarian church, among others.

¹³ The same party nominated Ion Iliescu for President.

Following the radical political shift and the returning of the "old guard", a general distrust on the part of the external factors could be expected. From the security perspective, there are some elements in Romania's case that are discussed among the experts in the region. These are as follows: the extremely strong influence of the military over the political system; the experience accumulated in the last few years in managing social crises, where the army was engaged in suppressing social discontent caused by hard economic situation; the possibility for reviving the old communist thesis for the specific role of Romania and for the specific policy it has to carry out. Resulting from the lack of an apparent progress in the relations with EU and NATO, the growing disappointment among the population is a solid ground for such developments.

Bulgaria is maybe the only country, which was positively transformed after the Kosovo crisis. The escalation of tension in Kosovo coincided with the hard political, economic and social crisis in Bulgaria in the last days of the Bulgarian Socialist Party government (January 1997). The government of the United Democratic Forces¹⁴ had to solve two strategic issues: to get the country out of the domestic crisis through quick economic reforms and put an end to the foreign policy self-isolation of the socialists leading unconditionally the country towards EU and NATO. In that context, some radical decisions and activities were undertaken. Security policy was shifted from stability through maintaining equal distances and non-alignment to stability through involvement.

In political aspect, stability is underlined by three major components — the government of Ivan Kostov is the first one, which succeeded in completing its 4 years mandate; President Stoyanov became "president of the whole nation"; the main political opponent — the Bulgarian Socialist Party - supported the integration of Bulgaria in EU and NATO, changing its political platform. In economic aspect, stability is demonstrated through the sustainability and improvement of the macroeconomic indicators. Sustainable macroeconomic conditions were achieved in the

¹⁴ Leading formations are the Union of Democratic Forces and People's Union.

last three years: a stable currency board; low inflation; low official interest rate; substantial currency reserve; real economic growth of 3.5, 2.5 and 4.5% from 1998 to 2000, respectively. Banking system was stabilized. Private sector accounts for more than 70% of the GDP. There is a functioning market economy in Bulgaria. All these indicators as well as privatization and the adoption of different European type laws created a better investment climate and increased economic confidence in Bulgaria. In social aspect, stability is based on the successful (against the background of the Balkan situation) functioning of the ethnic model in the country. Here, the attention is shifted from the Bulgarian Turks to the Roma population because of the extremely hard economic and social environment. High rate of unemployment (between 18% and 30%, depending on reporting on shadow economy) as well as daily criminality are still serious problems that are to be solved. The biggest problem, however, is corruption spread among public administration, in the privatization process and in political process, in general.

The activities of the international terrorism indirectly influence Bulgarian security. The reforms of the security services brought about more extensive cooperation with the international institutions engaged in combating terrorism and organized crime. The attempts at trafficking in people through Bulgaria towards the EU increased significantly during the last few years. Being a transit station before the Yugoslav crisis, Bulgaria is now turning to be a market offering all kinds of drugs. The lack of an effective control over the export and the transit trafficking in arms (including towards embargo states) is still a serious problem.

Concerning the process of Serbia's democratization, Bulgaria supported the opposition against Milosevic, although not Kostunica in particular. In contrast to the EU, Bulgaria lifted the embargo against Yugoslavia immediately after the fall of Milosevic and started exporting products of vital importance for the social situation in the country i.e. energy and gas products. These steps were welcomed by the Serbs who agreed to sign an agreement regulating the opening of new border checkpoints as well as the construction of the Sofia — Belgrade highway,

which is of key importance for Bulgaria. An important issue in the bilateral relations is the status of the Bulgarian minority in Serbia, which does not enjoy the same rights as the representatives of the minority groups recognized by the Constitution. There are already some improvements in political aspect — the Bulgarians participate in the ruling coalition at local level.

Bulgaria has to find solution to several problems resulting from the combination of some extremely unfavorable economic and political factors, which are: world financial crisis, Kosovo war, the most difficult phase of the reconstruction of Bulgarian economy. The country has not overcome these negative impacts that are still creating some risks. These challenges are to be eliminated in the next few years but they will also be interpreted during the forthcoming parliamentary and presidential elections that are to be held in 2001. The best scenario has been formulated by President Stoyanov in Davos. There, he appealed for *big bang* approach in the EU enlargement process¹⁵. The worse scenario (in case of an overall failure of the economic reforms) is integral part of the question of Janusz Bugajski: "Is Romania an example for Bulgaria and is Serbia an example for Romania?"¹⁶.

The Perspectives: Expectations and Possibilities

1. The Balkans have suffered the consecutive stage of regional violation. I would like to believe that this would be the last war in the region. The involvement of the international factors, the permanent monitoring of the situation, the presence of enough as quality and effective international military contingent, and last but not least, the changing national development paradigm of the countries in the region make almost impossible any large-scale military conflict.

¹⁵ See also at <http://www.president.bg>.

¹⁶ Videoconference Sofia-Washington, 19.12.2000, organized by the Institute for Regional and International Studies.

2. The major security issues, posed in the course of the crises in the last decade, are still in the agenda: was this the last Balkan war? How will the ethno-religious problems be resolved? How will we counteract against political nationalism? How will the regional political, economic and security cooperation be developed and stimulated? How will civic and social problems be resolved? How will democracy be developed? How will the fight against international organized crime and corruption be organized? What is the real perspective for EU and NATO membership?

3. There is an important conclusion (no matter how paradoxically it sounds) saying that it is hard to find somebody, who is ready to work in favor and to discuss the issue related to regional security or to regional security system. Kosovo crisis transformed Balkan security into almost a global question. Any idea trying to enclose the region in its geographic boundaries will be rejected by most of the countries, including influential ones. The security relations among the Balkan countries will be assessed in the context of European and Eurasian security, regardless of the issue in question — the Cyprus problem, the Bosnian Federation or Transylvania.

4. The outcomes of the peacemaking operation in Kosovo are another key conclusion. In contrast to the Bosnian case, the military intervention in Kosovo has not led to negotiation process between the conflict sides — both Serbs and Kosovo Albanians have brought their positions to the extreme sides.

It has not been proved yet that a military operation with humanitarian aims could be accomplished through the destruction of civilian targets too. This manner of leading a peacemaking operation is not legitimate in Europe. It identifies the US and NATO activities with those of Russia in Chechnya and with the attitude of the Islamic terrorists. In this respect, neither the new NATO “self-interventionist” strategy, nor the EU intentions to establish a military force for the Petersberg missions meet enough understanding and optimism on the Balkans.

5. The future of the Yugoslav political system emerges as a key security issue. The future status of Kosovo and Montenegro are the major questions in this context.

In fact, a great number of the Serb population does not consider Kosovo as a Yugoslav province. On the other side, however, a lot of Serb politicians think that a possible secession of Kosovo would be a dangerous precedent in the region, where still are a lot of unresolved ethnic conflicts. Any restoration of the 1999 status quo is almost impossible having the high level of ethnic intolerance and the fact that the Albanians would never agree with it. UN Resolution 1244 is an interim decision that postpones the solution of the issue concerning the future status of Kosovo. This decision, however, creates a risk for the Albanians to increase their pressure in order to achieve a formal independence. For the present, all the parties concerned reject the formula according to which Kosovo is the *third federal republic within FR Yugoslavia*. However, this approach could turn to be the possible compromise. *Broad autonomy within the framework of FR Yugoslavia* approach is in compliance with Resolution 1244. If a referendum for Kosovo independence takes place, there will be serious difficulties in recognizing its results with the respective consequences on FR Yugoslavia and the region, in general. A possible *accession of an independent Kosovo to Albania* would provoke joint reaction of the consolidated international community. The *division of Kosovo* scenario also seems impossible and does not enjoy the support of the parties concerned nor of the international actors.

The *international protectorate* formula will most probably last for a long time, as it is acceptable for the majority of the interested parties. Despite all critics against UNMIK and KFOR, the Kosovo Serbs and the Yugoslav authorities have a strong interest in keeping the status quo, as they are not able to govern the province. Moreover, the international presence provides mechanisms for control and influence over the Albanian factor aiming at not allowing the establishment of a new Albanian state.

In general, there will be a slow and difficult development of the peace process with sporadic incidents (mainly in the areas with ethnically

mixed population) and complex criminogeneous environment influencing the situation in neighboring countries. So, the international presence will be maintained for a long period of time.

The unresolved ethnic problems in Vojvodina and Sandzak remain as a serious challenge to the new Yugoslav government. The development of the processes and their settlement will be closely interrelated to the overall situation within the federation.

6. Obviously, the Montenegrin question will be a key issue for Belgrade's government as well as in the regional agenda, in general, whatever its final solution is. According to an optimistic scenario, the two republics could divorce in mutual consent preserving close political and economic relations. Following the pessimistic one, Monte Negro would unilaterally break away from Yugoslavia. In this case, the domino effect would cause a series of demands for independence by the Kosovo Albanians, the Bosnian Serbs and the Albanians in Macedonia.

7. From the point of view of Yugoslavia's neighboring countries, there are two main theses concerning the future of the federation. The nationalist-negativist thesis defines that the more fragmented and weak is ex-powerful Yugoslav State, the better for its neighbors. Yugoslavia's fragmentation means also disintegration of its economic, political and military potential, growth of its own importance for the international factors, prospects for imposing its own interests and priorities.

The positivist thesis includes finding a lasting solution to the "Balkan question". Politicians and analysts from the region also offer two different perspectives: preservation of the existing borders and national status quo as well as progress towards EU accession following the "country by country" approach, on the one side; Balkan confederation minimizing the importance of state borders and making the region in general much more attractive for the EU, on the other side.

From the political declarations of the most of the countries in the region it is evident that they share a common vision — not changing

the borders of nowadays Yugoslavia¹⁷ — the threat that unpredictable consequences and a possible chain reaction is quite substantial. If however an eventual dissolution occurs the question is whether it would happen as a legal divorce or other outbreaks of violence will take place. This problem generates and supports one of the basic incentives for the countries in the region to insist on continuing the US commitments along with the presence of NATO, EU, OSCE and other big European countries, as well as Russia. It is expected that a consolidated strategy for the region could hardly be achieved for the time being. What should be avoided however are the improvisations of some countries and the racing for the sake of one's benefits that have occurred during different phases of the 10-year Yugoslav crisis. Each of the listed countries and organizations holds a piece of the puzzle of the Balkans stabilization process. Such statements as "there is nothing on the Balkans which the EU cannot do while the US can" are insubstantial. For local people it means that wrong conclusions of the 10-year crisis have been made.

The vision of the best strategy is being consolidated on the basis of the formula of waiting, matched with the formal execution of protectorate status of Kosovo by the UN supported by military-police forces KFOR.

8. The security situation in the region, the heritage of military activities and the great amount of available weapons out of the authorities' control, the overall economic stagnation and the insufficient consolidation of state institutions create favorable conditions for crime groups and networks taking control over the region. The criminal activities of

¹⁷ On this topic amongst Western circles it is well-known that despite one-sided declarations the opinion is strongly divided - a confederation of independent states, "asymmetrical Yugoslavian state (Croatia and Slovenia on confederation principle, the rest ones - on federal - K. Gligorov and Alia Izetbegovic), federation of republics with broad autonomy, Karl Bildt's federation (former Yugoslavia, but with Albania instead of Slovenia, and Kosovo as a republic - an attempt to solve Kosovo independence issue and to postpone with decades the ambitions of Balkan countries for EU and NATO membership), disintegration of Federation and disintegration of Serbia.

international scale are being recorded in the areas of smuggling of goods, money laundering and using illegal financial mechanisms, crimes against intellectual property, transit and dissemination of drugs and illegal migration. Within the context of this topic these security risks in the region discredit democratic political changes, create grave economic difficulties, promote trans-border corruption at all levels and establish damaging psychological inclinations against certain ethnic and national groups.

The Logic of Stabilization

The logic of the stabilization of the Balkans requires a complex decision for achieving lasting peace, stability and security in the region. The parameters of this decision include principle abolishment of reasons for violent conflicts, combating poverty of people in the region and a clear European and Euro-Atlantic perspective.

The attention should be concentrated on settling serious disputable issues because the Balkans come out of the subsequent/ successive historical crisis with a list of activated but not resolved conflicts. In practice there is no conflict in the region that has been uprooted after having escalated to a crisis or an even a war. And that happened due to and through the Great powers involvement. The piling up of unresolved conflicts maintains the perception of “domino effect” which generates mutual suspicions among neighboring countries. The non-confidence demolishes the premises for regional cooperation, engenders the politics of axis and balances, and permanently maintains the necessity of a “bigger brother”. The concept for nation — states within ethnic borders should be ultimately abandoned because ethnic borders are not distinguishable in either of the Balkan cases.

Poverty is the key to the problems in the region. The people on the Balkans have always been the poorest in Europe. At the beginning of the new century the distance is the same as during the time of the Ottoman Empire. The struggle for political power in most of the countries is almost never a matter of ideas. The political power in the countries

from the region is the main source of profits. It attracts the criminal elements as well as the new “democratic” partocracy. Poverty is the environment where criminality and corruption become immense and international. In the era of comprehensive information the differences between living standards could not be hidden as it had been some fifteen years ago. Poverty however motivates the activities and sacrifice only if there is a common feeling in society that it could be overcome. What come next are the political and social apathy, the dissolution of values and “the end of history”.

The European and Euro-Atlantic perspectives are the main positive and motivating factor for all the countries in the region. They do what the new ideology of quickly imported democracy cannot do — to motivate people to stand the unbearable burden of shock of reforming the political, economic and cultural constructions of societies. No regional strategy could be successful unless it comprises the prospects for membership in Euro-Atlantic organizations. The more and further countries advance in their democratic and economic development, the more the European paradigm will become dominant and comprehensive. Further more - the states and peoples from the Balkan region are perhaps the only in Europe who need, use and support globalization.

“Weak states” will continue to be the major source of instability. Though one should not jump to conclusion that the only way out is “tough hand and austere government”. The attention should be directed towards forming strong social contracts based on the democracy idea and European prospect.

The realistic decision for the countries in the region is modernization of the existing status quo through introducing democratic constitutional principles, development, consolidation of democratic institutions and applying democratic political practices. The long-term perspective includes the transformation of the political systems based on ethnic principle to civic ones.

The Expectations from the New US Policy: Security Issues

The analytical groups in the region share the opinion that the basic motive for the US involvement in the region in view of lacking vital interests is the threat arisen due to the crisis in post-military values. It is necessary to modify the Euro-Atlantic solidarity in the new circumstances, counterbalancing the strive of Europe to globalize its political and cultural influence and pushing Russia out of its last access to Europe. This motive could really have global meaning for the New World order but it is of too strategic scale to be perceived by the crisis-paralyzed Balkans. It sounds selfishly regardless of the fact who articulates it — Americans, West Europeans or Russians. The “spread of democracy” thesis, reiterated in US and NATO documents, cannot compensate this feeling because it reminds (as a message) of the communist thesis of “exporting communism” to the Third World countries. Further more that Europeans have used very carefully and rarely this motive.

We cannot expect a joint attitude towards the US role in the region. The US policy and activities have been criticized on a variety of occasions but as a whole its contribution to conflict settlement in Bosnia, Albania and Kosovo and to conflict prevention in Cyprus and Macedonia has never been questioned. Most of these US activities provoked a change in the level of involvement of the EU and its member states. Without these US initiatives the Stability pact and the beginning of the process of association of West Balkans to the EU would not be likely. The prevailing opinions however are based on profits estimating and not calculating the eventual shortcomings if the US would not intervene.

The expectations from the new US policy towards the Balkans are controversial. The declared intention by President Bush and his administration to reconsider the American military presence in strategic regions and conflict zones is not new. It has been expected once the Warsaw Pact disintegrated. In fact, however, there have never been

discussions on diminishing the military factor impact on the US foreign policy. What has been discussed is reconsidering the priorities and arranging the intensity of involvement.

On the Balkans no one is ready to accept the arguments for quick withdrawal (political, military or economic) of the USA from the region. For many people the very fact of debating on this option is being perceived as a factor for destabilization not only of Southeastern Europe but also of Euro-Atlantic relations. The thesis that the US could free space for the EU implementing its Common Foreign and Security Policy and its military aspect is mistimed. At the stage of its current development the EU has no resources for a large-scale involvement in the Balkans complicated case. If the initiative is being given up there would be an inevitable vacuum of power and control as well as unsanctioned maneuvers of local actors and even Russia, China and Islamic fundamentalists. The withdrawal of Americans from Kosovo would not only diminish the efficiency of international military presence but also multiply the risks for those who would stay there. It is not a matter of secret that Kosovar Albanians consider the Americans being their only trustful allies and guardians and their withdrawal will give a chance for direct clashes among Albanian terrorists, Yugoslavian army units and the international contingent. Terrorists are not afraid of well-equipped and trained American soldiers but what bothers them is the US reaction in case of US troops casualties.

Apart from that, there would be greater contradictions within the EU in regard to what should be done in Kosovo and what policy should be pursued towards each of the countries in the region. For Europe stays as one only when it argues with America¹⁸.

There are series of principle issues on stabilization, security and development of the region that only the US could deal with. Amongst the main issues are:

¹⁸ Ivan Krastev, Director, Center for Liberal Strategies, Sofia; available from <http://www.mediapoolbg.com>; Internet; accessed February 2, 2001.

■ Acting strategically and decisively to prevent sudden overhaul of hostilities and to avoid the escalation of new crisis by means of permanent monitoring and maintaining rapid reaction forces.

■ Continuing and completing simultaneously what have been started in Dayton and Kosovo, to promote the stabilization of Albania and Macedonia and to influence the development of processes within the Yugoslav federation.

■ Balancing the interests of Russia and other big European countries in the region in such a manner that local states have opportunities for development.

■ Reacting effectively in case of strain in Greek-Turkish relations and unblocking the situation in Cyprus.

■ Maintaining and advancing the process of regional military cooperation, supporting military reforms in the countries fulfilling the Action Plan for NATO membership as well as sponsoring their participation in big events within Partnership for Peace initiative.

■ Stimulating the enhancement of confidence — and security-building measures in the region and strengthening control over the transfers of weapons.

■ Influencing the development of infrastructure projects for transporting oil and natural gas from the Caspian sea to Western Europe so that countries from the region could gain economic and security profits (i.e. to consider Balkans in a broader than European context).

The countries on the Balkans are well aware of the fact that without vital interests in the region as a whole the US would hardly commit themselves to a long-term and large-scale strategy for stabilization and

development. But on the other hand, everybody understands that what have been started in Bosnia and Serbia could be neither canceled nor conserved. The problem from local point of view is to avoid the repetition of Clinton's attitude, who needed quite much time to understand the Bosnia issue.

Within the context of all these threats and variables the outbreak of "depleted uranium scandal" turned out to be a multiple risk. It questioned not only the notion that NATO operations against Serbia have been motivated by humanitarian reasons but the military success of the Alliance at all. The scandal would inevitably put the US in trouble in case of a move for banning depleted uranium weapons. But the most important consequence is that the US could not just afford withdrawing from the Balkans in near future, they could even not afford talking seriously about that¹⁹.

The development of transatlantic relations will surely influence the US behavior on the Balkans. The way the Kosovo crisis was managed reasserted the conviction not only amongst European politicians and analysts that the US abilities to control the strategic decisions in Europe should be overcome. It was actually the projection of the Balkan crisis from the last decade that has shown how far America has gone in regard to a one-polar world. As a counter reaction the Europeans will alter their strategy of behavior but not only symbolically. The interests of Europe coincide no more with the US interests. The American worries that NATO would turn to be anachronism if Europe establishes its own army would be counteracted by the statement that after Kosovo NATO is already anachronism. It is just one aspect of the problem of trans-Atlantic relations, which reflects on the perspective of Southeastern Europe. In short term, the biggest threat is if the inner debates in the Western Alliance diminish the control over the situation and the efficiency of post-crisis regulation of the Balkans. In long term, analysts warn that the development of transatlantic relations could reach such a point that the states from

¹⁹ Ivan Krastev, Director, Center for Liberal Strategies, Sofia; available from <http://www.mediapoolbg.com>; Internet; accessed February 2, 2001.

the region could be forced to choose between the US and Europe, between NATO and European Union.

One of the major expectations with regard to the US is that the new administration will keep (at least) the complex approach to lasting stabilization and development of the Balkans. In the region there are all the necessary resources for secure foundations of such an approach to be built: The Security Council to ensure a mandate and to guarantee the involvement of the main actors; the NATO potential to ensure the stability of environment; the commitment of EU to ensure political basis and resources necessary for economic and social stabilization and institutional development; the US commitment to guarantee the will for completing this process.

Within the basic components of the decision, along with political regulation and economic development, is the key issue of security.

In the sphere of security it is expected that the US policy will be directed at avoiding new crises in the region. In short term the key issues are:

- Clear indication of the commitment to resolve the crisis and strategy for stabilization, regardless that parallel process of trans-Atlantic aspect will be under way.

- Immediate and effective reaction in any case of organized armed violence.

- Establishing trustful and principle control over the inflow of weapons into the region.

- Completing the demilitarizing of para-military and para-police forces.

- Elaborating and pursuing sound and consistent policy of involving Yugoslavia in Partnership for Peace Initiative and the process

of South-Eastern Europe Defense Ministerial (Serbs are very sensitive to military security issues).

In long term, the US commitments are in several key aspects of security:

- Interaction and support in combating organized crime, international corruption and terrorism.

- New confidence and security-building measures emphasized on enlarging transparency of military activities and diminishing military presence in border zones.

- Further development of military cooperation from a “process” to a “concrete product”.

- Invitation for Bulgaria and Romania to join NATO.

Broader interaction and cooperation in combating soft-security issues is a top priority because the outcomes result directly on public opinion and political attitudes. In many of the countries fighting corruption at the high levels of power and at international level is an essential element of political pre-election and governance programs. It is substantially important in this context the cooperation on equal basis, thus avoiding the impression that the US closely observe the processes and react selectively with regard to their own interests. The principle cooperation in controlling the production exports and transit of weapons.

Enlarging confidence and security-building measures in the aspect mentioned above is just the first step. Projecting the formula of the Conventional Armed Forces in Europe Treaty on the new map of the region reveals serious gaps. Somehow these gaps have been bridged by the inadequate notion of strengthening the defense of a new country or seeking military balance and parity or providing groups with arms to

fight against or defend themselves. The countries in the region have neither potential for resolving a problem nor even stimulating a debate on it. Therefore the US commitment is a part of the possible solution. An important issue in this context is the expected release of hundreds and thousands of small and heavy arms units in due course of the commenced armed forces reduction. The cooperation and interaction with the US is significant from technical as well as political aspect.

The political will and organizational impetus of the USA established the military cooperation in the region. It initiated important processes and concrete results - the key process for the region is the South-Eastern Europe Defense Ministers Meetings (with the participation of the USA and Italy), the joint position on Kosovo, the participation in Partnership for Peace Initiative²⁰, Multilateral Peace Forces in SEE, the bilateral military initiatives, joint military infrastructure projects as the Center for Air Sovereignty, National Military Command Center, etc. The cooperation with the USA underlies the military reforms of the countries in the region regarding the conceptual, methodological and military-technology aspects. What should be invested in is cooperation leading to interdependence.

NATO enlargement towards the countries from the region is the indisputable issue of the security strategy. All the arguments “in favor” and “against” have been laid down on the table and their reiteration could have the reverse effect. The notion that is being shared by many people on the Balkans is that if we are to witness the real implications of this process the very philosophy of enlargement should be altered: from incorporating secure and stable countries to incorporating countries in order to become secure and stable.

As Jeffery Simon precisely concludes NATO needed 10 years to integrate the easiest for incorporation countries²¹. The new administration

²⁰ For example, the 5-year Bulgarian participation in Partnership for Peace Program is due to the substantial financial aid and support of the US.

²¹ Videoconference Sofia - Washington, 19.12.2000, organized by the Institute for Regional and International Studies.

can change the pursued policies of “doors” (closed, slightly open, open, open but no one enters) and “polishing candidates”. Obviously, everybody is tired of this game. It is time to lay cards down on the table — the problems along with the potential for decisions. The notion that the recipient of security guarantees should be importer of security to the Alliance is true but needs further clarifying. Each newly accepted country at first gains more than it has given. It can not be required accession of a country in such an invisible manner that no one can perceive it.

The statement that NATO membership is an important factor for domestic development but does not solve all the problems is also true but needs further clarification. The NATO membership changes the attitude towards the invited country — it becomes more perspective, the readiness and scale of foreign political support is being changed; the political support guarantees economic investments; good and active economic relations develop positive social perceptions within the country as well as within most important partners, change the policy of opponents. The option Bulgaria and/or Romania to remain out of NATO consciously or not is being related to an inevitable change of national paradigm of security transforming the vision of “collective security in Europe” to the vision of “sanitary belt around the Balkans” and all the consequences of it.

Cooperation with NATO, preparation and accession should be a matter of normal business and not political sophistication. The talks between political and military bodies of NATO and the candidate countries should not be assumed as an elitarian process. In this context it is of ultimate importance to avoid political surprises between the USA and their partners in the region. Establishing mechanisms for “early warning” and precise policy “interpreting” are needed. It should not be ignored that the time for political reacting as well as the political culture of key institutions and persons in the US and in the countries from the region is quite different. The piled potential for interaction during the last decade could be better structured on bilateral as well as on regional basis. In this context it is also important to establish and maintain effective

interface towards the societies in member countries and candidate countries in order to inform them and motivate them, respectively. The potential of non-governmental organizations and target groups should be reactivated in this respect.

* * *

The end of the Cold War started several hot wars on the Balkans - wars that no country won and yet the Balkan peoples lost altogether.

“Instead of myths and stereotypes that have recently used to explain the so-called Balkan mentality establishing a realistic vision for resolving Balkan problems”, the Bulgarian President Petar Stoyanov appealed to his colleagues²². The positive aspects of post-Second World War West European history are based on the presumption that the way out of a crisis is through economic and social solidarity, reciprocal compromises in view of the common interest and shared acquisitions with regard to future bigger investments. The key issue of the stabilization strategy for the region is motivating and supporting solidarity perceptions, developing positive trends with strong and large-scale basis that are worth investing in. This particular approach should be stimulated by the countries, which want, can and consider as one’s own interest the transition of the Balkans from a “powder keg” to a European region.

²² Balkan countries leaders meeting in Davos, 28.01.2001; available from <http://www.president.bg>; Internet; accessed February 1, 2001.

INFRASTRUCTURE DEVELOPMENT IN THE SEE REGION

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The general outcome after the conflicts in South-Eastern Europe (SEE) was that the international community, together with the countries of the Balkan region, is seeking to prepare a regional program which will help to establish the basis for stability and security in the region. The Stability Pact signed in June 1999 in Cologne, was given as one of its missions to define and support such a program for sustainability. The region includes Albania, Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia, the Former Yugoslav Republic of Macedonia, as well as Bulgaria and Romania (SEE-7 countries).

The main intention of the overall regional initiative is to present strategic direction on how economic and social benefits could be completed from internal integration within SEE. The most significant part of the Pact is accomplishment of an affiliated policy for the infrastructure development

of the SEE region. Improving infrastructure in the region will be very considerable to support economic growth and the integration process.

The total population of the SEE-7 countries is approximately 55 million, or 15% of the EU population of 375 million¹. Since the region is Europe's poorest, its economic share is even more marginal. Total GDP in the SEE-7 stood at around EUR 100 billion in 1998, or 1.4% of total EU GDP². The series of conflicts that disordered large parts of the Balkan region since the early 1990s doubtlessly lead to economic decline not only in the countries which make up former Yugoslavia but also in all the rest states on the Balkans. Theoretical economic considerations point out the crucial role of infrastructure investments as pre-conditions for economic growth, as well as providing some pointers to the likely sources of financing for such investments.³

Infrastructure covers structurally important areas as transport, power generation and communications. It is very significant factor for achieving sustainable economic development.

Transport corridors

South Eastern Europe is on the crossroad between Europe and Asia and it is also the natural transit route between Europe and Asia. Six out of ten European multi-modal transport corridors proceed through SEE countries. The development of the network of transport corridors into an integrated system is a deliberate policy of the European Union, realized by the decisions taken at the Second Pan-European Transport Conference 1994 in Crete and of the Third Conference in Helsinki 1997⁴.

¹ Report "The Basic Infrastructure Investment in SEE", by Balkan Task Force, EIB, Luxembourg, September 28, 1999.

² "The Basic Infrastructure Investment in SEE", Balkan Task Force, EIB, Luxembourg, September 28, 1999.

³ "The Geostrategic and International Political Implications of EU Enlargement", by Guenter Krenzler, Report of the second meeting of the working group on the Eastern Enlargement of EU.

⁴ Please, see Table No 1 in the Appendix.

Aims of Southeast European Countries for Developing Road Transport

The common tendency for the region is the improvement of the quality of road connections related with handling international traffic.

Romania's main goal is to develop the roads of the European transport corridors passing through its territory. This intention is also connected with an easily explained striving to extend the length of the corridors passing through the country.

Another of Romania's goals is a co-operation with the neighbouring countries in precisely assessing the need for developing and linking the existing national road network with the future motorways of the European corridors. There is a considerable discrepancy between stated intentions and actual work on the part of the country since it gives priority to national interests at the expense of maximum efficiency in setting up international roads.

Romania's programme plans the reconstruction and expansion of the national road network. The main priorities in that respect are the reconstruction of the Budapest-Pitest motorway and constructing another 3 000 km of motorways. Along with that another goal of the country is improving safety which is directly connected with improving the quality of the transport system.

In the field of combined transport it is important for Romania to build new road-ferryboat links with Bulgaria.

Yugoslavia's plans for development of the road infrastructure are in two directions. One is completing the Trans-European motorway sections. Another is connected with the plans for restoring the close relations with **Macedonia** and with the resulting attempt to improve the transport communications with the former Yugoslavian republics as well as restoration of damages from the NATO bombings.

The main intention in the transport policy of Macedonia is to overcome its isolation and provide alternative transport connections in the direction of east to west. The transport connections of the country

with Europe until now have been mainly in the direction north to south and pass through the territory of Yugoslavia on the north and access to the Mediterranean sea is achieved through the territory of Greece.

The plans for the development of the road network from east-west are expressed by the emphasis the country lays on building transport Corridor No.8 and on the striving for establishing co-operation with Bulgaria and Albania. Through this corridor Macedonia will provide itself an alternative to its link to Europe through Yugoslavia and will acquire an alternative outlet on the Mediterranean.

Although the priority in the country's policy is the development of the links in the direction east-west, the second major goal of Macedonia is to restore and develop road connections with Yugoslavia.

In its transport policy **Greece** has set three main goals. One is to complete and modernize the existing road network. In that respect the main priority is build and develop the road connections which include the west coast of the country. Another priority is building road connections which will improve the road network in the region of Athens.

Another goal of Greece is to attract additional international traffic through its territory. The process of ensuring the most favourable conditions for building the Via Ignatia and PATHE motorways, situated along the main international road axes of the country, has been intensified.

The other priority — establishing new and improving the existing contacts with neighbouring countries and thus improving the possibilities for land communications with other European Union members is also connected with the second goal of attracting more traffic. In that respect the priorities are opening three new border checkpoints with Bulgaria, as well as creating a new road link to the Greek-Albanian border.

Turkey's strategy for developing the road network has several aspects. Its main goal is to ensure maximum opportunities for attracting transport traffic from Europe to Asia and back. Connected with that is also the intention to complete the sections of the Trans-European network. In order to ensure the fastest and shortest access to the markets of Western Europe, Turkey plans to build key projects — road bridges at Izmit bay

and Chanakkale over the Dardanelles. In the future these projects could influence the restructuring of the transport traffic in the Balkans.

If there are many questions to Turkey's inclusion as a full member of the European economic space, the country's turning into a regional power in the Black Sea region is a real process which takes much ambition and efforts. In the context of the globalization process shaping the Black Sea region into an integral link between continents requires an infrastructure adequate to these needs. In accordance with that is the policy of building connections between the countries of the Black Sea region. In that respect it is of priority to build a motorway along the Asian coast of the Sea of Marmara, as well as to develop the Black Sea coast corridor, which connect Europe, the Caucasian countries and the Middle East.

The geographical location of **Bulgaria** defines the special importance of the transport sector integration with the European Union, as well as for its overall development. Bulgaria is on the Balkan routes cross road that connects EU with Turkey, the Middle East, Ukraine, Russia and Central Asia and between Greece and Scandinavia. The corridors that pass through the territory of Bulgaria are roads that have been approved by history. The traditional, over the centuries, movement of people and goods from Europe to Asia and backwards has been realized and is still performed along the destinations of the five Pan — European corridors, that cross the territory of the country.

First, the main priority in the future development of the road network of Bulgaria is improving and finishing the roads that are part of the European transport corridors. That is determined by the fact that Corridors No.4, No.8, No.9, and No.10 are the way to the real integration of the country's road network into the European one.

The reconstruction of main international roads - motorways and class I roads — aims at bringing the quality closer to the European standards. The main activities in the strategy are improvement of the road network structure on a national and regional level, development of new road axes and recategorization of those in operation. Building fully

compatible road networks in the European countries, which meet common standards, is one of conditions for a successful integration of the Bulgarian economy into the common European market.

The **second** important point is “opening” the road network of Bulgaria to the countries of the region in order to improve the co-operation between them. In that respect it is important to open new border checkpoints. The goal to develop the road infrastructure in border territories is also connected with the implementation of transborder co-operation.

The **third** important point is improving the technical and operational condition of the road network of national importance and equalizing the quality of service in the different parts of the country and thus equalizing their chances for development and attracting investments. In that respect it is necessary to pursue a consistent regional policy for development of the Danube and Black Sea coast, the Rhodopes, Strandzha-Sakar and the west border territories.

Some priority projects of the Bulgarian transport investments policy along the routes of the main European transport corridors (given by order of their numbering and not by the degree of their importance), and the respective steps undertaken for their implementation are as follows.⁵

European transport corridor No.4 where electrification and reconstruction of the railway line to Greece is in progress, as well as reconstruction and rehabilitation of sections of the first-class international roads in the direction towards Romania. The Bulgarian state strongly supports the idea for construction of a new bridge in the western part of the common Danube River border and has always pointed out that it would be not only a bridge between the two countries but also would have European significance.

International commerce in the whole Danube River region has been blocked due to the destruction of bridges by NATO bombers attacking

Yugoslav targets in the war for Kosovo. Several countries, including Ukraine, Romania, Bulgaria, Hungary, and Germany, have complained of trade losses running into billions of dollars because river ships with their convoys of barges cannot traverse the Danube.

The river is a major transportation link for most of its 3,000 kilometers route from southern Germany to the Black Sea. For about 400 kilometers, it flows through Yugoslavia. Those 400 kilometers are vital for trade between Eastern and Western Europe. Any disturbance that cuts traffic through the Yugoslav section has an immediate effect on trade figures.

European transport corridor No.8 (East-West — of crucial importance) where works are in progress for construction of a direct railway connection between Sofia and Skopje, reconstruction and rehabilitation of the road beds of the corridor and of the borderline transit ways. The investigation made by authoritative European consultants indicated for the economic viability of the corridor and the forecasts are proving to be absolutely true. The states connected by the corridor co-ordinate their investment plans and have the necessary international support. Within this corridor it is envisaged the construction of Sofia Airport as a modern transit center of passengers and cargo flow of the Balkans.

European transport corridor No.9 including construction of highway sections and rehabilitation of the road connections implementing the national program for reconstruction of transit ways.

Modernization of the Bourgas and Varna ports is of particular importance for the development of the corridors on the territory of Bulgaria. They establish comfortable connections to the transport networks of the states in the Caucasian region and in Central Asia, which also look for alternative ways of their commodity exchange with Europe.

Railways ferryboat terminal in Varna which is the only one along the western Black Sea coast with adjustable track spacing of wagons coming from the railway network of the former Soviet Union. For this reason it is not necessary to construct new expensive terminals there,

⁵ Please, see the table 2 in the Appendix.

but only ferryboat quays.

The transport corridors must offer equivalent alternatives and must function in the conditions of a freely competing market environment in respect to all aspects of the transborder collaboration. For the efficient development of the transport corridor both the technical aspects of the coordinated construction and maintenance in respect of time and place, and the institutional framework (facilitation of the frontier and customs procedures, security of the roads, etc.) are important. The recent conflicts in Yugoslavia, the sanctions and embargo have resulted in important disruptions on these corridors.

Roads

The road infrastructure is a basic element that has a crucial role in sharing the structure of national transport systems, the main transport corridors and with their binding with the network with neighboring countries.

As a whole the road networks in the SEE region are extensive with differing densities. Primary and secondary roads amount to some 57,000 km in the SEE-5 countries (Albania, Bosnia and Herzegovina, Croatia, the FR of Yugoslavia and the FYR of Macedonia), and another 86,000 km in Bulgaria and Romania⁶. The tertiary network of local and unpaved roads, which is at least as significant in length, is not considered here. There are some 1,435 km of motorways (two-by-two lane divided highways), which are concentrated in the FR of Yugoslavia, Croatia, Bulgaria, the FYR of Macedonia and Romania⁷. Though not accomplishing the exemplary levels of the EU, road network lengths are significant in the region and illustrate the considerable capital expenditure that has gone into building and preserving such networks over the years, often on difficult terrain.

⁶ "Regional Infrastructure Projects in South Eastern Europe", Sofia 1999.

⁷ "Basic Infrastructure Investments in SEE - Regional project review", Regional Funding Conference for SEE Brussels, 29-30 March 2000.

The state of the network is very uneven, although there is a general trend toward lack of periodic and current maintenance. Considering the Pan-European transport Corridors, defined in Crete (1994) and revised in Helsinki in 1997, SEE region represent an area of high importance for the South Eastern directions. Six of all ten European corridors involve seven SEE countries.

The issue of competitive routes arise to some degree in certain cases, such as between Corridor No.10 and Corridor No.4 or Corridor No.8 and Greek project Via Egnatia as major transit routes between Western Europe and the South-East and East-West direction. Physical characteristics such as route length, topography of alignment or physical obstacles, and excising capacities may implicitly indicate an economically preferred route. Notwithstanding, political circumstances or geo-strategic considerations may make the alternative corridor the only feasible route in terms of security in a medium-term perspective.

The Energy Projects

The region of South Eastern Europe is quite well endowed with energy resources - coal, limited amount of gas and petroleum and considerable hydropower reserves. Nevertheless the countries are net energy consumers, with energy imports outside the region representing approximately 40% of total energy consumption⁸. Energy production and consumption have fallen during the last decade due to economic changes and persistent conflicts. Per capita primary energy consumption in the region is about half of that in developed European countries. The gas is the important source of energy for industry and heating in most of the region, the primary source being Russian supplies. Romania is able to satisfy its gas demand from domestic production. As well as in other regions, the interdependence of energy such as electricity, oil, gas and coals forms an important factor.

⁸ "Basic Infrastructure Investments in SEE - Regional project review", Regional Funding Conference for SEE Brussels, 29-30 March 2000.

Most of the countries in the region are small gas producers of modest volumes that they use in their own domestic markets; in general, there are no cross border interconnections among the gas networks of these countries.

The region is a net importer of natural gas; the Russian Federation has a dominant role as the almost exclusive supplier. This almost total dependency creates one of the most important restrictions to the development of the gas industry and highlights the issues of diversification and security of supply.

Natural gas consumption in the region compared to that of the European Union reveals the existence of free capacity and therefore potential for investment initiatives in the gas industry. Although the situation changes when factors associated with the short and medium perspectives of some national economies, the old subsidization system, which forces to prices lower than the costs, and the structure of local gas markets have to be considered.

Proposed natural gas projects cover the whole spectrum of activities from Trans-Continental pipelines to isolated LNG terminals and national underground gas storage facilities. The evaluation of the Common Interest Projects led to the establishment of three levels of priorities:

1. Priority projects concern the supply of gas to recognized markets that have demonstrated their propensity to consume higher gas quantities. Previous works have already been undertaken showing the development of activities towards further project stages. The two previous conditions denote that the risk to proceed with the investment is rather low.

2. Priority projects are oriented towards new regions without a tradition of using natural gas, some of them even with lack of infrastructures. These projects concern new interconnections between Balkan countries that can contribute to the development of a regional gas network. Additionally, these projects concern the installation of new

trunk lines to supply natural gas from alternative gas sources or to transport natural gas to Balkan regions still isolated from gas networks. First studies have been undertaken and respective conclusions are being analyzed.

3. Priority projects are still at a preliminary stage and some of them need to be further studied to evaluate their feasibility. These projects concern the launching of pipelines crossing borders between different countries. Due to the low level of project development some of the countries involved, although supporting the project, require further explanations regarding specific points. The two previous conditions denote that these projects have, presently, higher risk.

Apart from long term considerations associated with transcontinental pipelines, local markets attempt to regulate their supply problems during peak seasons through the development of nationally oriented underground gas storage facilities. A number of projects referring to this type of investment initiatives have been registered in the inventory but since they were not related with at least two Balkan countries they were excluded from the list of common interest projects and, consequently, were not evaluated.

If, however, these proposals were to be considered as elements of a regional transmission system then the whole approach would change and they could be raised to the first priority group.

Under the assumption that the involved countries would agree on a regional approach, an overall study should be undertaken to explore and propose optimum solutions for the necessary feasibility studies. The necessary co-ordination could be offered at the early stages by a scheme similar to the Task Force while funds could be raised from PHARE and other relevant programs.

In such a perspective, the formation of a regional multinational organization as a joint venture company by all involved parties could prove to be more efficient in raising funds from international institutions

and the private sector. Meanwhile it could cover in a more persistent and economic way undesired disturbances in the supply sector.

Gas Transmission Network. Development Projects

Significant gas deposits have been discovered until now neither in Bulgaria nor in the neighboring Balkan countries, Romania being the only exception. This determines the importance of the Balkan region in regard to natural gas transmission from gas-production fields to end consumers as well as the region's performance as a potential market.

The major producer of natural gas to the developed European markets are the fields in North sea, the huge reserves of the Russian fields in Siberia, North African ledges predominantly in Algeria and the Caspian basin in Iran. The construction and functioning of a terminal of liquefied natural gas in Turkey and the forthcoming launching of such a terminal in Greece will feasibly enhance the opportunities of natural gas import from other sources.

Russian natural gas is very important for Balkan states in respect to the transit and the reliable deliveries of natural gas. At this stage Russian natural gas is the only opportunity for most of the Balkan countries, including Bulgaria. In a short term perspective two simultaneous processes will take place in SEE countries — with increasing natural gas consumption the problems related to ensuring the accuracy of deliveries and possible diversification will aggravate.

To 2003 the export of natural gas from Caspian region and eventually from Iran is expected to reach European markets through Turkey and Bulgaria. There is theoretical probability for connecting the Bulgarian transmission system through Romania and Hungary, but the expectations are that the price of natural gas will be higher than the price of Russian natural gas. Construction of new liquefied gas terminals and their joint operations are also expected. Therefore, the possibilities of increasing the readability of gas deliveries and their diversification are connected both to certain expenses, which should be provided by states

in transition, as well as unspecified perspectives in the development of the gas market. The general economic situation in the SEE countries does not allow the provision of significant funds for diversification of natural gas delivery, aimed at reduction of prices and thus directly influencing the development of gas market.

In a regional perspective the Bulgarian transmission and transit system, the consumer structure of natural gas and the potential of development of the country, together with the geographic situation, define the future aspects of the country as an energy distribution center on the Balkans.

The tendencies of increase in electric power production from natural gas, based on significant advantages of natural gas as a resource, will increase the importance of natural gas in determining the energy structure of SEE countries.

The requirements of Kyoto conference for reducing the emissions of noxious gasses in the atmosphere are also a factor in the growth of natural gas consumption in the region.

The diversification of natural gas deliveries is an important element of the development of the gas industry in the region. Feasible opportunities for diversification are created by the development of technologies and the reduction in the prices of liquefied natural gas. However, the level of market development will be decisive for such solutions. In the next six years the development of gas market in the region will be crucial for implementation of new transit projects, as well as for the diversification of the market.

The direct supplies for households especially are expected to intensify the development of the gas market in the Balkan countries. In all of the Balkan countries the gasification of big cities and regions and the development of distribution companies is a priority, which will increase the consumption of natural gas.

The future usage of natural gas depends on development of the technologies of its transmission and storage.

Bulgaria can be one of the major distribution centers of natural gas in the Balkan region and gain the respective economic and political advantages.

The change of the market structure in Bulgaria and neighboring countries, as well as the increase in consumption of natural gas need a favorable transmission and transit system. The transit of Russian natural gas through Romania and Bulgaria to the rapidly developing Turkish market is economically most profitable both for consumers and exporters. This will improve conditions for extension of the transfer system, magnification of the power of compressor station, expansion of underground gas depository of Chiren⁹ and the construction of a new one.

The current economic condition in SEE countries and especially the significant differences of national economies and potentials of each country to invest own resources or to make use of subsidiaries in the implementation of diversification of natural gas deliveries outline and following trends. Countries like Turkey and Greece are oriented to the usage of installation of liquefied natural gas despite of higher prices. Turkey has such terminals and Greece is on the way to putting into operation of a similar installation. Having in mind the level of economic development and the state of affairs in the market, it is unlikely that the rest of the countries in the region including Bulgaria will adopt the usage of such terminals within the next years. Consequently, given an approximately equal level of economic development, the different countries have different opportunities for diversification of gas deliveries and protection of consumers from the monopoly prices.

The regional approach requires equivalence to be guaranteed and avoiding decision that can be used for economic and political pressure. Economic sustainability should be the criteria for choosing a long-term investment strategy in the region. An example of this could be the alternative projects for Albanian Carrying System, which at present uses local resources and lack natural gas. The possibilities of connection are mainly via Macedonia with the

Bulgarian transit system or via Greece. The two projects are alternative but their implementation can be influenced by different finances of the respective countries.

Another project of importance for Bulgaria is the building of a transit branch to Serbia. It is considered that the Serbian economy will become a considerable consumer of natural gas as soon as change in its political conjuncture occurs and the process of disintegration diminishes.

The main projects which have good prospects in the field of natural gas transit from the East to the West are the following:

- Connecting itself with the European network Russia is also in a process of modernization of its own gas transfer system. The Yamal gas pipeline will provide gas through Belarus and Poland, flowing into the West European gas pipeline system in the territory of the former East Germany.

- Development of the natural gas deposits in Turkmenistan and construction of transit pipelines leading to the European market.

- Freeing the exploitation of the Iranian natural gas and transit supplies to the western markets (provided that the status of the country will be changed).

Natural Gas Transfer Projects of Priority Significance for Bulgaria

The interest of Bulgaria is to expand its gas supplies network and integrate with the gas market in SEE, however, due consideration should be given to the existing specific conditions. On the one hand, because of its specific territorial position, Bulgaria is a strategic

factor in the system of natural gas supplies to Turkey, and in the future could have the same position also in respect to Greece, Macedonia and Serbia with the transit gas pipeline constructed by Bulgargas as it provides to these countries access to the Russian natural gas. It is in the interest of Bulgaria to participate in transborder projects for expansion of the transit gas pipeline and making the country a center of transport and distribution of the Russian natural gas, which would bear real income from transit fees, however, provided that a specified minimum available quantity could be guaranteed.

On the other hand, Bulgaria must solve the problem of its own gas supplies while keeping the possibility to obtain the prevailing supplies from Russia, provided of course, that best possible terms and conditions of prices and suppliers will be agreed. It is of crucial importance to find variant solutions for alternative supplies of natural gas and connection with another gas supply system because only under competitive conditions on the gas market Bulgaria could negotiate better gas supply conditions and increase the extent of its energy independence.

Bulgaria is on the way of the biggest ever designed facility for alternative gas supplies to SEE — the gas transit pipeline from Turkmenistan through Turkey to Central and West Europe.

The geographical position of Bulgaria offers two essential advantages. On the one hand, Bulgaria has the privilege to be the most direct, cheapest and most secure way to the Mediterranean and in particular towards Turkey. On the other hand - it is on the way towards Western Europe for the alternative supplies of Turkmenian gas along the route beyond the control of Russia. It could become a regional distribution center and, after connection of the alternative gas deposits with Europe, Bulgaria could break through its dependence on Russia. At the same time during the last years there has been in practice a stalemate as a result of the crisis in the Bulgarian-Russian relations in respect to natural gas supplies which inevitably affected the problem of transit and expansion of the gas transfer system.

Oil

The regional demand for crude oil cannot be satisfied by the region's own oil resources. There is ample production only in Romania, Croatia, Serbia and Albania. Also, in spite of the apparently high nominal refining capacity, the actual available capacity is not sufficient to provide the required product mix.

The increasing volumes of crude oil that will enter the Black sea market will provide an opportunity to the region to take advantage of the competition between supplies from both the east and the west. The region can also play a key role in transit of crude oil from the Caspian sea to consumption markets, and in helping to reduce the environmental concerns associated with increased oil shipments through the Bosphorus. Although in view of several mutually competitive projects the strategic option remains to be fully investigated.

Planning of oil interconnections in the Balkans is subject to decisions associated to national policies, concerning security of supplies, and expectations related with the international routes of oil, originating either from Central Russia, or from the Caspian fields.

The analysis of the energy balance in the oil sector announces that the region is a net importer of crude oil and that despite the existence of high refining capacity, especially in Romania, the existing infrastructure cannot meet the increasing demand.

Balkan countries appear to face two alternatives in connection with the emerging Caspian oil and the expected finalization of transportation routes. They can either upgrade some of their own refineries satisfying their internal demands and becoming exporters of light products, mostly in the region, or they can import refined products from western markets and certain selected upgraded refineries of the region.

The list of Common Interest Projects includes four projects separated in two groups. All of them are in a very preliminary stage in their planning process although project (Bourgas — Alexandroupolis) has a considerably higher volume of available information. Two of the projects (Bourgas — Alexandroupolis and Bourgas — Vlore) called

AMBO) refer to possible routes of Caspian oil transportation from the Black Sea ports to Mediterranean Sea while the remaining two refer to the South-North axis intending to satisfy regional demands.

Statements that the crude oil of the Caspian fields (Tengizchevroil and Azerbaijan International Operating Company — AIOC) will be transported to international markets through the Black Sea ports of Russia and Georgia have revived the importance of ideas for by-passing the Straights with pipelines ending to Alexandroupolis on the Aegean Sea and Vlore on the Adriatic Sea. Furthermore, expectations that the USD 2 billion pipeline which is under construction by Caspian Pipeline Consortium (CPC) will be commissioned in 1999 and that the Bacu-Soupsa line of AIOC could be operational by the end of 1998 have set the time horizon for decisions associated with the possible routes of oil transportation throughout the Balkans. Besides the expectations of the countries concerned, there are some questions to be answered prior to the construction of a new pipeline ending somewhere in the Mediterranean Sea. They are related to the maximum volume of oil that can be transported and the possible restrictions that may be imposed on international trade through the Straights. With utilization rate of 88% and a maximum agreed international throughput of about 50.0 mtpa¹⁰ of crude oil and refined products southbound, it seems that no much space is left for the gradually increasing volumes of Caspian oil in the Black Sea. If this is true, then in addition to the Bosphorus tanker route, the expected growth in transported volumes justifies, at least for the near future, an additional capacity of up to 40 mtpa¹¹.

The proposed projects of Bourgas-Alexandroupolis and Bourgas-Vlore are in some competition, although decision making will not be based on economic criteria. In any case, whatever the outcome on this issue may be, it will affect decisions concerning the structure and the

¹⁰ Study by European Commission Directorate General for Energy (DG XVII) Balkan Energy Task Force, October 1997.

¹¹ Study by European Commission Directorate General for Energy (DG XVII) Balkan Energy Task Force, October 1997.

development of the oil industry in the Balkans.

A first consideration of priorities would appear to confirm that Bourgas-Alexandroupolis is clearly the highest priority project in the oil sector, due mainly to the growing pressures for an alternative route to the Bosphorus and Dardanelles for transporting crude oil from the Black Sea to the Mediterranean.

Even though Turkey has environmental reservations. As far as international environmental impacts are concerned, the expected oil which may be shipped from the ports of Eastern Black Sea, South Turkey (Caspian oil) and the North Adriatic (Russian oil) may double or even triple the annually transported volumes from these areas. This situation may lead to environmental damages far beyond the self-regulatory capabilities of ecosystems.¹²

The other three projects can be grouped together in a lower priority due to the very preliminary stage of planning, and also because of several other factors. As it has been already explained, if the Bourgas — Alexandroupolis project proceeds, it is unlikely that a second major trans-Balkan crude oil line such as AMBO could be justified in the near future. In the case of the Thessaloniki-Skopje projects, the need for an in-depth refinery study casts some doubt on whether both crude oil and product lines are justified.

Priority Projects for Bulgaria in the Field of Oil Transfer

The main projects related to the transfer of oil through the territory of Bulgaria are two. Both of them are connected with transfer of Caspian oil and are based on the presumption that it will be transferred through the territory of Russia to Novorosiysk or through the territory of Georgia to Supsa. In addition to the alternative of the Trans-Balkan projects in the variant Baku-Cheyhan, there is also the possibility of passing the pipeline through the territory of Ukraine to Odesa and to the North-West,

¹² See the article by Hakan Akbul, "Energy Decision-Making: the Turk case", in *Perceptions*, September-November, 2000.

to connect with the oil pipeline Drujba.

The first project envisages construction of an oil pipeline from Burgas through the territory of Bulgaria to the Greek port Alexandroupolis at the Mediterranean Sea. From there the raw material will be shipped by oil tankers to the European markets. It is envisaged that a part of the raw material will be processed in the oil refineries in Bulgaria and Greece. The efficiency of the project is based on the circumstance that the most direct way from Novorossiysk to the Mediterranean petroleum market passes through Bulgaria. The project for the pipeline Burgas — Alexandroupolis is calculated for the time being at US\$ 760 million.¹³

The second project is the so-called AMBO. It is initiated by the American businessman Vuk Tashkovitch and envisages joint participation of Bulgaria, Macedonia and Albania in the construction, and at a later stage, in the exploitation of the oil pipeline from Burgas through the territory of Macedonia to the Albanian port Vlora at the Adriatic Sea. AMBO, according to experts, will cost about US\$ 850 million¹⁴.

The interest of Bulgaria in the two Trans-Balkans projects is apparent. However, until this moment, the project which is at a more advanced stage of negotiations — the project Burgas — Alexandroupolis, has not made any significant progress. There are several problems in the negotiations on this project. Bulgaria and Greece still disagree on the issue of the shareholding of the two countries in the future joint-venture which will operate the transit through this pipeline. This problem, however, turns out to be insignificant at the background of the general ambiguity on the future routes of the Caspian pipeline.

The variants preferred by Bulgaria are the routes through Novorossiysk and Supsa to Burgas and therefrom to the west and/or southwest. There is a touch of optimism in the support of the EU, the representatives of which have declared their support for the route Burgas-

¹³ Data from Regional Infrastructure Projects in South Eastern Europe (Sofia: IRIS) 1999.

¹⁴ Data from Regional Infrastructure Projects in South Eastern Europe, Sofia: IRIS, 1999.

Alexandroupolis. Besides, it seems that Russia is not able to guarantee neither with its own deposits the minimum quantities of oil which would make the oil pipeline profitable.

Lately the project Baku — Cheyhan is favored route by US administration. It is running through Georgia and then south through Turkey to the country's Mediterranean port of Ceyhan, even though a new pipeline along this route could cost as much as 84 billion US\$¹⁵. This figure would be twice what it would cost to upgrade and expand the two Black Sea pipelines favored by the AIOC consortium, and with world oil prices plunging to historic lows, cost became an important issue.

However, getting the oil to market remains the hard part. Two pipelines, one from Baku to Georgia's Black Sea port of Soupsa and another from the Azerbaijan capital to the Russian Black Sea terminal at Novorossiysk, can together only handle around 200,000 barrels per day, or a 300,000 barrel shortfall¹⁶.

The Baku — Cheyhan project is favored by the US for several reasons. Above all, the Americans are keen to make sure that no oil is routed through Iran. It would give Turkey, one of Washington's firm allies in the region, a degree of control over the export of oil from the Caucasus, and reduce the newly independent state's dependence on Moscow, which will probably be collecting transit duties from the large amounts of oil that will be exported from the Kazakhstan fields of Tengiz. There are also valid environmental reasons in favor of the Baku — Cheyhan route: Novorossiysk and Soupsa are both on the Black Sea and oil will have to be transported by tanker through the Bosphorus, which bisects Istanbul,

¹⁵ Data from online article "Central Asia: Caspian Resources Provide Alternative To Middle East" by Ben Partridge, published at www.rferl.org.

¹⁶ See the online article Geopolitics and Energy in the Middle East, Anthony H. Cordesman, published at www.rferl.org.

¹⁷ See an article by Ben Partridge "Central Asia: Caspian Resources Provide Alternative to Middle East", Radio Free Europe, March 16, 2000, available from <http://www.rferl.org/nca/features/2000/01/f.ru.000105125920.html>, Internet; accessed February 15, 2001.

a city of over 10 million. The Turkish authorities have been trying to alert the world for the danger that supertankers present for the city and its environment. With strong currents and counter-currents, navigation is notoriously difficult on the winding straits and accidents are frequent. So far, major environmental disasters have been averted, but with 4,500 tankers currently passing through the Bosphorus every year, the risk is high¹⁷.

Conclusions

The infrastructure in SEE region has several significant dimensions. *First* one, crucial efficiency gains can be made by occupied infrastructure development regionally rather than on a national level. Given the small size of most SEE countries, development of infrastructure investments and policies strictly on a national basis does not allow for the exploitation of economies of scale, which are likely to be important especially in transport and energy. *Second*, since the benefits from regional projects are realized beyond national borders, fair mechanisms for financing, and in general burden sharing, of these regional projects will need to be established, again at a regional level. *Third*, the creation of new nation states with international borders can be an obstacle to trade and integration, if each border crossing is associated with long waits, new visa requirements, high transaction costs. Such obstacles can only be addressed by reaching international agreements on border crossing processes, the establishment of the necessary infrastructure at the border transit points and the implementation of supportive and efficient customs administrations¹⁸. *Fourth*, the development of infrastructure is constrained by issues - including weak institutional arrangements and large rehabilitation and reconstruction needs — that are shared by SEE countries and thus warrant a coordinated, regional approach to addressing them.

— ~~One additional common element of infrastructure development in the SEE region will be the gradual adjustment towards EU standards~~

and the EU *acquis communautaire*. EU policies for the transport,

telecommunications and energy sectors will need to be gradually and consistently introduced by SEE countries. A regional approach to providing

assistance to SEE countries towards this objective should be considered¹⁹.

APPENDIX

Table No. 1

PROJECT NAME	MAIN POINTS
Corridor No.1	Helsinki-Tallin-Riga-Kaunas-Warsaw with a spur Riga-Kaliningrad-Gdansk
Corridor No.2	Berlin-Warsaw-Minsk-Moscow
Corridor No.3	Berlin/Dresden-Wroclaw-Katowice-Krakow-Lvov-Kiev
Corridor No.4	Dresden/Nurnberg-Prague-Vienna/Bratislava-Gyor-Budapest-Arad-Constanta/Crayova-Sofia-Thessaloniki/Plovdiv-Istanbul
Corridor No.5	Venice-Trieste/Kopper-Ljubljana-Maribor-the Slovenian-Hungarian border-Budapest-the Hungarian-Ukrainian border-Uzhgorod-Lvov (Kiev) with sidings: Branch 1 : Rijeka-Zagreb-the Croatian-Hungarian border-Budapest-the Hungarian-Ukrainian border-Uzhgorod-Lvov-Kiev; and Branch 2 : Bratislava-Zhilina-Koshitze-Uzhgorod
Corridor No.6	Gdansk-Katowice-Zhilina with siding Grudziadz-Poznan
Corridor No.7	the Danube River
Corridor No.8	Durres-Tirana-Skopje-Sofia-Plovdiv-Burgas-Varna
Corridor No.9	Helsinki-St.Petersburg-Moscow/Pskov-Kiev-Lyubasevka-Kishinev-Bucharest-Dimitrovgrad-Alexandropolis with sidings: Kiev-Minsk-Vilnius-Kaunas Klaypeda/Kaliningrad; Lyubasevka-Odessa
Corridor No.10	Salzburg-Lubljana-Zagreb-Belgrade-Nis-Skopje-Veles- Tessaaloniki and the folloing sidings: a) Budapest-Novi Sad-Beolgrade b) Nis-Sofia(Dimitrovgrad-Istanbul along the route of Corridore N. 4) c) Veles-Bitola-Florina-Via Egnatia-Igoumenitsa

Table №2

ROADS	PROJECT TYPES	COUNTRIES
Corridor No.8	Completion of key sections of East-West link to appropriate standard	Albania Macedonia Bulgaria
Corridor No.10	Completion/repair of key sections of North-Southwest link to appropriate standard	Albania BiH Macedonia
Corridor No.5	Completion of key sections of North-Southwest link to appropriate standard	BiH Croatia
Corridor No.4	Completion of key bridge over Danube	Bulgaria Romania
RAILWAYS		
Corridor No.8	Completion of cross-border line to Bulgaria	Macedonia
Corridor No.10	Renewal of key sections	BiH
Corridor No.5	Renewal of key sections	BiH
Corridor No.4	Completion of key sections	Bulgaria
WATERWAYS		
Corridor No.8	Renewal of Ports of Durres and Bourgas	Albania Bulgaria
Corridor No.7	Restoration of Danube shipping	FRY Romania
AIRPORTS		
	Terminal Infrastructure Tirana/Rinas - Skopje	Macedonia Albania
ELECTRICITY		
High Voltage Interconnections	Vrutok-Burrel Blagoevgrad-Dubrovo Sarajevo-Mostar-Bileca	Albania Bulgaria/Macedonia BiH
Generation	Vjosa River Hydropower	Albania
Distribution	Renewal countrywide	BiH
OIL AND GAS		
Gas Pipeline interconnection	Possible link to Greece or Italy	Albania
Oil and gas transit pipelines	Part of Caspian Sea Project	Bulgaria
Gas Transition and Distribution	System renewal; pipe replacement	Romania
TELECOMMUNICATIONS		
Fixed networks	Modernization and extension	All countries
Mobile networks	Extension	All countries

BULGARIA'S TRADE PERSPECTIVES IN BALKAN CONTEXT

Dr. Krassen Stanchev, Martin Dimitrov, IME¹

Introduction

In this paper we make an attempt to cover most of the basic factors, determining trade performance, comparing Bulgaria's position with that of other Balkan countries. Trade potential is correlated with: trade openness, capital and labor resources, regional trade agreements, tariff and non-tariff policies, FDI inflow, economic, financial and political stability and world organizations membership, which influence the framework to regulate trade on the country level. The analysis is based on the assumption that trade performance reflects a possibility to participate in international exchange with a share corresponding to its

¹ We would like to thank Borislav Georgiev of BIA for his assistance in putting together paragraph 6 and 8 of this paper.

competitive abilities. Competitiveness is the capability to generate prosperity by increased productivity in providing goods and services that stand tests of the market place under normal conditions.

Openness of Bulgaria and Other Balkan Countries

Openness is a precondition for better trade and competitiveness since it sets the opportunity to serve more sophisticated demand and tap richest markets responding to unlimited supply of cheaper resources and labor. Trade plays a varied role in the SEE economies, with trade/GDP ratios ranging from as high as 87% and 91% for Macedonia and Bulgaria, to as low as 32 to 29% for Albania and FR of Yugoslavia (FRY). In terms of trade to GDP, there is a significant difference between Bulgaria, Bosnia and Herzegovina (BiH), and Macedonia with their greatest ratios of trade to GDP, the medium ratios of Croatia and Romania, and the smaller international exchanges of Albania, and FR Yugoslavia (FRY).

TRADE OPENNESS: 1999 (IN%)

	(Exports + Imports)/GDP
Albania	32
BiH	76
Bulgaria	91
Croatia	60
Yugoslavia	29
Macedonia	87
Romania	56

Source: World Bank²

Conventionally speaking, an economy is open when the given ratios are more than 50%. In this sense Albania and Yugoslavia would be considered relatively closed economies. In Albania, reasons are to be found in the size of the industries, low productivity levels and the wide spread informality of the business environment. In FRY the ratio reflects

² Trade Integration for SEE in the Context of the Stability Pact, World Bank, 2000, p. 55.

distort impacts of embargoes, sanctions, closing markets because of military conflicts and respective contraction of the economy.

However, the greater openness of Bulgaria and Macedonia in SEE comparison does not necessarily means immediate trade potential. It is an evidence of getting some fundamental rights: established trade directions and contracts, cooperation links and routes, a probability to resist competitive pressures and perhaps cluster internationally.

It is likely that Balkan economies with greater openness would sustain greater output and, over time, would achieve higher income. Recently, James Gwartney, Charles Skipton and Robert Lawson constructed a Trade Openness Index (TOI),³ designed to measure the interception of basic growth factors with international trade. It has 4 components:

THE TRADE OPENNESS INDEX, CONVERGENCE, KEY POLICY VARIABLES, AND INCOME

	Real GDP per capita 1998		Average annual growth rate of real per capita GDP-a		
	(1)	(2)	(3)	(4)	(5)
Trade Openness Index (1980-98)	3.1 (9.6)*	2.0 (5.96)*	0.4 (3.85)*	0.4 (2.8)*	0.3 (2.13)**
Per capita GDP 1980				-0.1 (3.13)*	
Property rights rating 1980		1.0 (5.32)*		0.2 (2.33)**	0.2 (2.46)**
Inflation variability rating		0.5 (2.27)**		0.4 (4.81)*	0.5 (4.89)*
Intercept	-8.1 (4.29)*	-12.2 (6.29)*	-1.0 (1.5)*	-3.6 (5.00)*	-4.3 (4.91)*
N	87-b	87-b	87-b	87-b	66-c
Adj R- Squared	52	65	14	36	38

t - statistics in parenthesis * significant at 99% level; ** significant at 95% level

a - Real GDP numbers are derived using the purchasing power parity method and are in U.S. dollars

b - There are 87 countries in this analysis

c - High income, long standing OECD members are excluded.

3 J. Gwartney, C. Skipton, R. Lawson, Trade Openness, Income Levels, and Economic Growth, 1980 - 1998. James Gwartney and Robert Lawson are editors of the Economic Freedom Index of the World, published since 1997 by the Fraser Institute in Canada; IME is a co-publisher of the Index (See).

a) tariff rates, b) the black market exchange rate premium, c) restrictions on capital movements, and d) the actual size of the trade sector.

The results illustrate the relationship between country's average TOI rating during 1980-98 and a given country's 1998 per capita GDP, the correlation is positive and highly significant. The adjusted R-squared comparison indicates TOI explains 52% of the variability in 1998 per capita GDP among the 87 countries. The next equation includes inflation and property rights, which significantly correlate at 95% The TOI remains highly significant ($t = 5.96$). The R-squared adjustment shows that all three variables explain 65% of cross-country variations in per capita GDP. Equation 3 looks at the relationship between the TOI and the growth rates of real per capita GDP for 1980-98. The t - ratio for the TOI is highly significant with R-squared indexes explaining 14% of the cross-country variation in growth. If we exclude from the equation 5 the high-income industrial countries (21 long standing OECD members) and reran the model the results are quite similar to those for all countries. The TOI remains positive and significant explanandum low-income countries.

Bulgarian Policy of Trade Liberalization

Trade partnerships are often shaped by policies. Reorientation of Bulgarian foreign trade was supported by a respective change in the policies. Although Bulgaria originally has succeeded in trade liberalization at the start of the reforms, it failed to maintain the original pace and direction of trade reforms while it was the advantage of countries like Czech Republic, Poland and Slovenia. The reasons for this uneven progress could be found in macroeconomic instability, uneven progress in introducing broader market reforms, and reemergence of price controls (in 1993-1996), which resulted in exchange rates volatility and demands for protection. Protectionism measures artificially boosted GDP in mid 1990. But even these temporary positive effects were immediately neutralized by the government support for loss making enterprise.

This liberalization process may be divided into several periods, according to the extent of trade liberalization and EU integration progress.

BULGARIA'S ROAD TO TRADE LIBERALIZATION		
Period	Policy mixes	Results
<u>First period:</u> 1991-1993	<ul style="list-style-type: none"> • Price liberalization; • Introduction of internal currency convertibility; • Elimination of non-tariff barriers and export subsidies; • EFTA Agreement (July 1993); • Signing of an Agreement with EU on the reciprocal establishment of tariff quotas for certain wines (November 1993). 	<ul style="list-style-type: none"> • Decrease in the gap between domestic and international prices as a result of internal convertibility; • Frequent changes in foreign trade regulations and restrictions, aiming at decreasing licensing procedures (import licenses, export permissions, etc.).
<u>Second period:</u> late 1993 - early 1997	<ul style="list-style-type: none"> • Reestablishment of price control from 10% of consumer basket at the end of 1992 to 51% at the end of 1996 • Design of 1996 and 1997 Custom Tariffs to individual inefficient and uncompetitive state owned or private enterprise; • Signing of the EU Association Agreement (EAA) (February 1995); • Attempts to politically revitalize trade with Russia. 	<ul style="list-style-type: none"> • Import duties remained very high: 3-30% (first column) and 5-40% (second column); • Unpredictable regulatory environment; • Political and Customs' corruption • Low FDI; • State owned enterprise indebtedness to suppliers of energy resources; • Low competitiveness; • Sharp contraction of the output.
<u>Third period:</u> 1997-1998	<ul style="list-style-type: none"> • Second prompt liberalization of trade and prices (from 51 to 10% of the consumer basket), introduction of the currency board regime; • Bulgaria becomes a member of WTO; • New, impartial Customs Tariffs is introduced. 	<ul style="list-style-type: none"> • Continued contraction of the output in 1997; • Revealing the inefficient export structure; • Repeated changes in foreign trade regulations, reflecting the measures included in the EAA; • Clear policy direction.

<p><u>Fourth period:</u> 1998-present.</p>	<ul style="list-style-type: none"> • National Program for Adoption of the Acquis (NPAA) was adopted in 1998, sustained commitment to EU membership is a stated priority of the Bulgarian government; • Bulgaria unilaterally lifted import duties on textile commodities from EFTA, equalizing duty treatment with that of the EU⁴; • Agreement on Accession to the Central European Free Trade Agreement (CEFTA)⁵; • Free trade agreement with Turkey (January 1999) and Macedonia (January 2000); • New Customs Code was adopted in 1998 and amended in 2000, providing for custom procedures similar to those of EU; • Establishment of new institutions;⁶ • Elimination of the existing 2 % import tax in 1999 and of export fees in the beginning of 2000; • 2000 removal of certain licensing procedures, replacement of licensing regime with registration regime regarding transactions with unprocessed timber and precious metals/gemstones. 	<ul style="list-style-type: none"> • Decrease of duties on exports improves Bulgarian access to the international market; • Significant impact of trade integration with EU; • Higher profitability and competitiveness are gradually achieved at enterprise level; • Meanwhile the overall competitiveness remains low; • Revenues from exports are low; • Increase of FDI; • Slow impact of newly signed bilateral and multilateral agreements; • Slow impact of institutional reforms but 2000 economic growth is already export driven.
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⁴ Since January 1999, duties on all industrial goods exported to the EU are tariff-free.

⁵ In January 1999 the agreement was enforced, duties were reduced on 80% of the goods imported from CEFTA countries. Duties on CEFTA imports will be eliminated in January of 2002.

⁶ E.g. Center for Export Promotion, Encouragement Bank and Export Insurance Agency.

As a whole, the gains from the liberalization of foreign trade have a limited impact on Bulgaria's economic performance, because of weak flexibility and adjustment to the domestic and international market on the part of economic agents. The hope is that, perhaps in the longer term, benefits from trade liberalization will be secured via enhanced competitiveness and diversification of the export structure based on higher value added products⁷.

CROSS COUNTRY COMPARISON OF TRADE PARAMETERS

	Trade restriction index*			Non-tariff barriers	Non-tariff barriers
	1997	1998	Average tariff 1998	1997	1999
Bulgaria	7	6	15.1	6	2
Romania	5	6	19.8	7	2
Slovenia	5	4	5.7	4	2
Slovak Republic	2	1	7	3	1
Czech Republic	1	1	6.9	1	1
Poland	2	2	11.6	2	1
Croatia	2	2	12.1	2	1
Hungary	6	5	13.3	5	2
Estonia	1	1	0	1	1
Lithuania	1	1	4.5	1	1

Source:IMF⁸

*(Ratings 1 - 10 equal to "most open" - most restrictive trade regime.)⁹

⁷ See: Yonkova, Stanchev (Eds.), In Search for Growth: Policies and Lessons From Bulgarian Economic Reforms, IME Newsletter, vol.5, No 11-12, 1999.

⁸ Bulgaria: Selected Issues and Statistical Appendix, IMF Staff Country Report #00/54, April 2000

⁹ Ibidem. The index combines measurements of the restrictiveness of tariffs and non-tariff barriers and measures the overall restrictiveness of the trade system of the given country relative to protection levels in all IMF member countries.

The table does not reflect most recent developments. Over the last three years Bulgaria's trade regime became less restrictive: the average tariff rate is reduced from 16.8% in 1997 to 13.7% from the beginning of 2000, non-tariff barriers were reduced substantially as well. Reduction of trade restrictions is already contributing to trade diversification and improves the efficiency of resource allocation. Under the conditions of monopoly structures, any effects from decreasing tariffs on resource distribution are lower than in countries with well-developed property rights. At the same time, Bulgaria's trade regime is far more restrictive than the other two currency board countries from the group of EU candidates, Estonia and Lithuania.

More detailed analysis on Bulgarian tariff measures illustrates the policy towards liberalization in the last five years. The mean tariff went from 16.1% in 1996 to 10.99% in 2000. Though, the process of trade liberalization could be faster. The tariff standard deviation is decreasing; i.e. there is more unified tariff policy.

BACKGROUND OF TARIFF MEASURES (BULGARIA)

Year	Mean	Median	Minimum	Maximum	Std. Dev.
1996	16.1	15	5	40	8.31
1997	15.49	15	0	40	9.04
1998	15.24	15	0	40	9.01
1999	12.55	10	0	40	9.13
2000	10.99	10	0	40	8.11

Source: Ministry of Finance

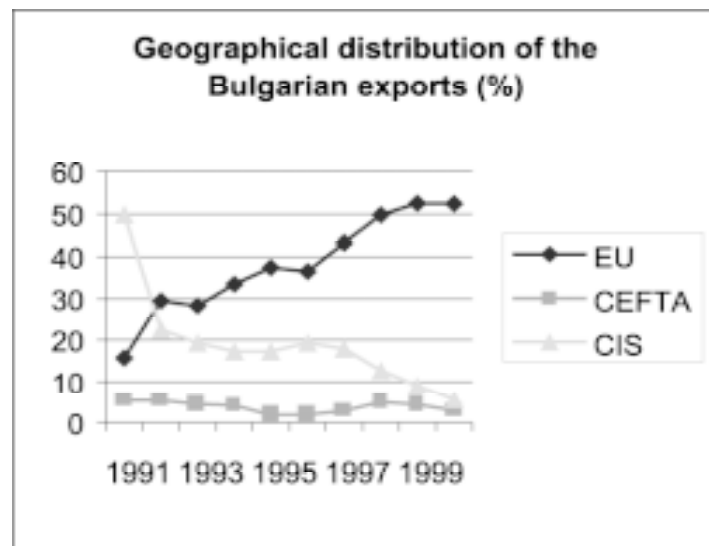
Bulgaria's Trade (Re)-Orientation

Trade and growth potential depends on the development prospects of the major markets: in the 1990's an average of more than 70% of the exports is previous import. Bulgaria, similarly to other Balkan countries, depends critically on international trade. Presumably, the growth prospects of EU and other major partners would be contributing to growth prospects of both Bulgaria and the Balkans.

Bulgaria's openness has a long history but in 1950-1980's it was channeled to former CMEA¹⁰. Thus the openness did not produce sustained output and higher income. Compared to Slovenia, which in 1991 had close to 60% of its trade with EU and EFTA, Bulgaria had to re-orient its trade from the same trade volume to then at the eve of dissolution CMEA, seeking other markets. Bulgaria's starting point of reforms was significantly worse than that of other emerging economies. Also, Bulgaria lost markets in Iraq, Libya, and Iran. Sanctions against Iraq and Libya blocked USD 2 billion of their debts to Bulgaria. It happened simultaneously with the default on foreign debt payment in March 1990, announced unilaterally by then communist cabinet. It also happened at the eve of the first democratic general elections of the post-communist history of the country, held in June 1990. Then elected new set of government had still to establish itself and simultaneously, in a condensed time-period, with the reorientation of trade to deal with debt rescheduling, launching reforms and constitution making. The immediate victim of this agenda was not the constitution making, political reforms or the international relations but the consistency of economic reforms.

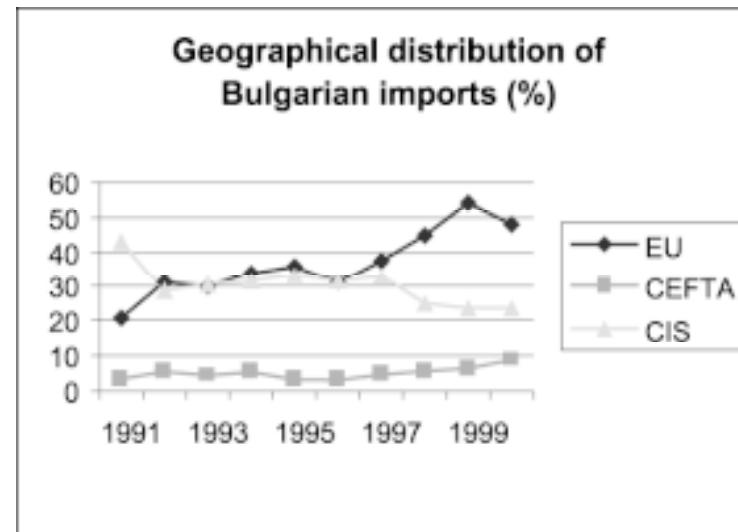
The following two graphs visualize the great redirection of Bulgaria's foreign trade: the result in 1999 is diametrically opposite to the situation at the start of the reforms.

¹⁰ See: Attachment 1 and Attachment 2



Source: NSI [Data on years before creation of CEFTA are for the current member-countries.]

Since 1998, imports from Russian Federation and CIS had virtually been limited to energy resources. It equalizes its rank as a market to CEFTA countries, while exports to EU have become ten times higher. The original decline in 1991-1993 in the “Eastern” trade is to be explained with two factors: the disappearance of the CMEA greenhouse and the fact that Bulgaria lost its “unique” access to COCOM-embargoed products, thus ceasing to be an exclusive supplier to the East. Until 1997 (i.e. before the Russian crisis), exports to CIS share in Bulgaria exports remained comparatively high. This is due to the so-called Yamburg agreement - an ex-CMEA (1987) agreement on natural gas supply at lower prices than international ones, which was paid back by pre-agreed reversed supply and barter.



After 1989, only four years registered growth in real GDP. In 1994, 1995 the growth was modest but fueled by indebtedness of the state owned enterprises, quasi-fiscal subsidies and international conjecture. The experience of the mid-1990 suggests that the absence of straightjacket on government interference could hamper prospects for growth¹¹. The country economics reemerges in 1998 and 1999 on sounder fundamentals (stable currency, low inflation, bankrupted loss making enterprise, etc.). In 2000 the registered growth is about 5% of GDP, thus completing a three-year test period for growth sustainability. At the same time, since 1989, real GDP has lost more than one-third of its initial volume and the recovery is slow, reaching in 2000 72% of the pre-reform level.

These circumstances suggest that the trade re-orientation, although taking place through out the period, was not backed by economic stability and restructuring, (which could assist penetration to new markets).

During 1992-1997 lead exporting sectors were the petrochemicals, ferrous and non-ferrous metallurgy, chemicals plus tobaccos and wines. These sectors have had a considerably larger global market share that

¹¹ See Attachment 2

the average Bulgaria's position in the global trade.¹² Tobacco was and still is a government monopoly. Though wineries remained yet government owned in mid-1990, marketing wines abroad was a private venture with a global market share four time higher than the average Bulgaria's export in different sectors. Short-term "advantages" of the heavy industry sectors were either in the cheap natural gas supply under the Yamburg agreement or in different forms of quasi-fiscal subsidies (debt forgiveness, subsidized electricity or postponed environmental liabilities). Although still with an artificial structure, the Bulgarian economy in the most of the 1990s directed its exports westwards.

Thus, besides some sporadic attempts to impose protectionist's tariffs, even in difficult general conditions Bulgarian economy remained predominantly open.

**BULGARIA'S EXPORTS/IMPORTS IN 1989-2000
AS PERCENT OF GDP**

Year	Export	Import	Total turnover
1989	34.5	32.3	66.9
1990	23.3	22.7	46.0
1991	42.3	33.3	75.5
1992	45.6	51.9	97.5
1993	34.4	46.8	81.2
1994	41.5	43.1	84.6
1995	40.9	43.2	84.1
1996	49.2	51.0	100.2
1997	48.2	47.9	96.1
1998	35.1	40.9	76.0
1999	38.2	52.8	91.0
2000*	44.0	58.0	102.0

Source: NSI, *IME forecast

¹² Atanas Gochev (editor), Competitiveness of Bulgarian Economy, International Relations Association, Sofia, 1998, p.15, 16-17.

The export/import comparisons by year give evidence of imports most of the time exceeding exports. The weight of the exports as a GDP factor was constantly declining in reform years, thus proving the uncompetitive real positioning of Bulgaria on international markets. For all years the pattern has been the export of low value added and energy and labor intensive products. The external demand did not serve as a factor of then registered growth.

Basic Growth Factors

DEMAND-SIDE STRUCTURE OF GDP

	1991	1999	2000
Private consumption	55.9	80.3	81.4
Government consumption	17.2	8.4	7.8
Investments	22.6	19.0	19.0
Net exports	4.3	- 7.7	- 5.8

Source: NSI

The table above compares the demand driving Bulgarian GDP since the start of the reforms in March 1991. The data for 2000 demonstrate a restoration of the role of exports as a factor of GDP. The significant fact is that it is the first development of the sort for ten years. The big question mark, however, is whether it marks a beginning of a trend or simply due to conjecture factors.

To answer this question, we need to pay a closer look to different domestic factors that are likely to support greater trade potential. For different factors we allocate different meaning of contemporaneity. As factors select:

Average growth of GDP for certain periods, although there was a growth in 1998 of 3.5%, we categorize this year to the previous period in order to "discount" a provisional impact of the economic inertia, and not to take into account the factor of the low starting point (the contraction of 1996 real GDP was 10.9%, in 1997 - 6.9%);

Average export growth for the same periods;

Average growth of savings to GDP, this time the contemporary period includes 1998, and it is compared to the years between 1995-1997 in order to avoid the sharpest decline in saving at the beginning of reforms;

Gross domestic investment (taken for the period of 1994-1997 in order to skip the dis-investments in first reform years) and foreign direct investment.

COMPARISONS OF SELECTED GROWTH FACTORS FOR SELECTED PERIODS

Indicators	[Period] / percent	[Period] / percent
Average GDP growth	1990-1998 / - 3.9	1999-2000* / 3.3
Average export growth	1990-1998 / 6.7	1999-2000 / 9.7
Average savings to GDP	1995-1997 / 13.16	1998-2000 / 13.13
Gross domestic investment	1994-1997 / 11.6	1998-2000 / 16.3
Foreign direct investment	1990-1998 / 3.3	1999-2000 / 4.4

Source: IMF, NSI, own calculations

(*) - 2000 forecast.

Growth trend seems to be reversed. Investment is steadily higher in the last three years than in the previous period. Foreign investment is higher than in years before 1998 but still unused factor. Bulgarian trade was converted from East to West under circumstances less favorable in 1998 - 2000 period, than they could be at early years of transition. Institutional background was also providing for greater government discretion, which allow eventually mismanaging the exchange rate and restored price controls and protectionism in 1995. In addition, by the end of 2000 90% of Bulgarian banks are private and 70% of them - foreign. No domestic political party is advocating major changes in the monetary or trade policies. External policy framework of EU accession is an additional institutional constraint to domestic temptation for radical policy reversals.¹³

¹³ See below the paragraphs of trade policy reforms and the Balkan context.

Major Trade Partners

The external demand is a major factor of growth. Given the assumed low value added of the Bulgarian exports, the geographical proximity presumably is playing a significant role. In this paragraph we concentrate on two major markets - the EU and SEE.

BULGARIA: RELATIVE SHARE OF EXPORTS TO SOME GROUPS OF COUNTRIES

	1996		1997		1998		1999	
	USD mln	%	USD mln	%	USD mln	%	USD mln	%
EU	1,912.5	39.1	2,128.7	43.3	1,083.8	44.6	2,085.3	52.6
Other OECD	554.0	11.3	661.7	13.5	249.0	12.0	491.1	12.4
EFTA	49.5	1.0	44.3	0.9	15.5	0.8	57.8	1.5
CEFTA (incl.Romania)	94.8	1.9	137.1	2.8	119.9	4.8	169.7	4.3
SEE	514.2	10.5	291.9	5.9	397.6	5.4	315.4	7.9

Source: NSI, BNB

EU is the biggest trading partner for all SEE economies, ranging from just under 90% of exports in the case of Albania to around 46 percent in the case of Croatia. On the other hand, all of these economies together account for a very small fraction, 1.6% of EU imports and 4.4% of exports to third countries. These countries are simply not major markets for EU exporters and are even less important as competitors to EU industry and agriculture. Excluding Bulgaria and Romania, they account for less than 1% of extra EU imports - and of course much less of the EU market, if EU production and intra-EU trade are included. The dependence is obviously not mutual, but it is important to see which countries of the EU have replaced the former CMEA Bulgarian markets.

The alternative SEE market has its own peculiarities. In terms of the trade potential it is the important to attempt to reflect to what extend Bulgaria differs from other countries in terms of partners they compete for. Tables below show the distribution of main trade partners in 1998. One year is obviously not sufficient to draw general conclusions, but

it is a normal year, without political distortions, appropriate for an illustration. At the same time, 1998 is not at all different in terms of partners' distribution from any year since 1995 for most of the countries.

SEE TRADE PARTNERS (IMPORT, PERCENT IN 1998)

	AL	BiH	BG	HR	FRY	MK	RO	SEE
SEE+SL	6.9	43.4	3.4	12.1	17.4	28.9	1.5	11.5
EU	79	41.5	44.6	58.1	72.6	52.8	56	56.1
I	38.7 (Ita)	14.7 (Ger)	13.9 (Ger)	20.5 (Ger)	25.2 (Ger)	14.4 (Ger)	17.5 (Ita)	
II	24.4 (Gre)	11.8 (Ita)	7.9 (Ita)	19 (Ita)	22.7 (Ita)	13.8 (Ita)	17.4 (Ger)	
III	7.9 (Ger)	4.9 (Aus)	6.4 (Gre)	5.1 (Fra)	8.8 (Aus)	8.9 (Aus)	6.9 (Fra)	
Industrial world	81.9	44.8	53.4	71.1	78.9	57.7	65.4	65.1

Source: IMF Direction of Trade

For Bulgaria, the geographical proximity matters only for the trade with Greece, which ranks third partner since 1994, being a member of the EU. For other countries, only Albania has a major trade with a neighboring country.

SEE TRADE PARTNERS (EXPORT, PERCENT IN 1998)

	AL	BiH	BG	HR	FRY	MK	RO	SEE
SEE+SL	3	39.3	7.7	25.3	25.9	22.8	3.3	11.5
EU	88.8	50.9	47.9	45.8	71.7	51.8	62.8	58
I	58.9 (Ita)	22.3 (Ita)	13.1 (Ita)	18.4 (Ita)	28 (Ita)	22.4 (Ger)	22.3 (Ita)	
II	12.8 (Gre)	18.8 (Ger)	10.9 (Ger)	17.3 (Ger)	25.5 (Ger)	11.4 (Ita)	19.5 (Ger)	
III	8.3 (Ger)	4.5 (Aus)	9.2 (Gre)	2.3 (Fra)	5.3 (Fra)	3.7 (Bel)	5.9 (Fra)	
Industrial world	94	54	56.7	53.4	71.7	65.9	70.7	65.6

Source: IMF Direction of Trade

For Bulgaria SEE trade cannot be underestimated.¹⁴ In 1998, it was relatively negligible but in 2000 it tripled, though it is likely that it has been more or less extraordinary development (mostly due to petroleum exports to FR Yugoslavia).

As a whole, intra-regional trade is limited, less 12% of the total Balkan trade. But this average hides many peculiarities. Bosnia and Herzegovina is significantly dependent on its trade with Croatia. Macedonia used to have a significantly larger regional trade within SEE than many neighboring countries. Some neighboring countries rarely trade among themselves, like Bulgaria and Romania. SEE countries trade over 60% with EU and the industrialized West, but not with one another.

There are at least several reasons for this:

- Regional integration of a low-income economy with low-income countries usually makes an economy poorer;

- The demand is weak and relatively unsophisticated, and competitive companies chose more complex markets;

- The countries in the region have relatively similar product and quality structures;

- Instability of the regional markets in monetary and political terms;

- Inefficient contract enforcement and dispute resolution;

- Tariff and non-tariff barriers.

Dependency on EU is to be seen in the totally insignificant Balkan share in the Union's import - 1.59% in 1998. In addition all the countries have same partners in EU trade, Germany and Italy, presumably trading similar goods. In the future the trade potential of Bulgaria, as well as of the other SEE, would to a significant extend depend on the economic growth in these countries.

¹⁴ See also the paragraph on SEE context below.

Re-channeling trade flows to neighboring Balkan countries would not serve as alternative because eventually the extra-regional demand has roughly the same address. The longer-term potential would depend mostly on the growth in Germany and Italy. The diversity of the third rank partners is greater but trading in that direction is times lower then for first/second ranks. The same must be true for the entire prospects of the GDP growth in Bulgaria and SEE countries.

The dependency comes from the low income of these economies. Bulgaria's GDP per capita is 1/5 of the EU lower rank economies. The average SEE GDP per capita at market exchange rate in 1998 was USD 1,793. Lowest GDP per capita had Albania (USD 1,110). Highest GDP per capita had Croatia - USD 4,635. The total SEE GDP was USD 94.92 billion. It is 0.32% of the value of the 1998 world output. If we exclude Romania (which is roughly 40% of the total SEE), remaining SEE GDP for 1998 is USD 58.12 billion, i.e. 0.2% of the world output (Average per country it means 0.033%). Excluding Romania, the total SEE GDP was roughly 1/12 of the combined 1998 public procurement budget of the EU member states.

**COMPOSITION OF EC IMPORTS FROM SEE COUNTRIES IN %
OF TOTAL EC IMPORTS BY SECTOR (1998)**

	Albania	BiH	Bulgaria	Croatia	FRY	FYROM	Romania	Total SEE
Total (%)	0.03	0.03	0.31	0.26	0.15	0.08	0.72	1.59
Agriculture	0.04	0.01	0.4	0.1	0.24	0.09	0.24	1.11
Textiles	0.13	0.14	1.02	0.88	0.32	0.4	3.39	6.29
Footwear	0.91	0.57	1.51	2.21	0.61	0.31	8.08	14.21
Iron and steel	0.1	0.08	2.77	0.11	1.76	1.21	3.51	9.54
Wood	0.07	0.36	0.5	1.49	0.41	0.08	1.16	4.07
Other	0.01	0.01	0.16	0.16	0.08	0.02	0.34	0.79

Source: ComExt

Agriculture goods are the only category in EU import from Bulgaria in which it has somewhat greater share. Exports of textiles and footwear are important to all SEE countries: but the share in EU imports ranges from 0.13% in the case of Albania to 3.39% for Romania (textiles) and from 0.31% for Macedonia to 8.08% for Romania for footwear. In textiles and iron and steel Bulgaria is second after Romania, but in the former goods its EU-market share is more than three times smaller than Romania's.

Bulgarian Trade with the Balkans

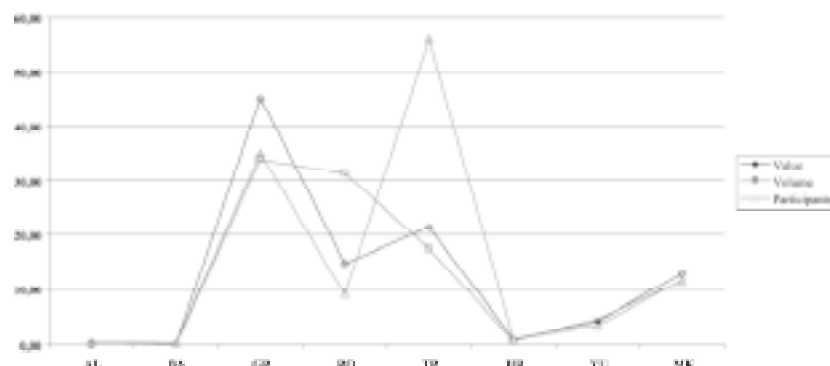
In order to deeper reflect upon institutional foundations of Bulgaria's trade potential we decided to check to what extend different partners contribute to the efficiency of trade and investment. Efficiency is understood as amount of investment per number of companies.

In 1998, the EU based companies constituted 6% of all registered companies with foreign capital, and their share in FDI's was 36%, or 60% in 1999 if we take into account reinvested earnings and loans. The difference in comparison with companies established by SEE (including Greek) capital is more than telling. They constituted 36% of all registered foreign companies, and their share in FDI's was 6% in 1998.

In order to understand what could be the reason we tried to compare different measures of trade between Bulgaria and the Balkans with the number of companies. We looked at values and the volumes of trades (as a relative estimation of quantity in metric tons) and compared them with the number of companies taking part in trade between Bulgaria and all Balkan countries (including Greece and Turkey) for a relatively long period - 1993 - 2000 (first six months).¹⁵

¹⁵ This approach is inapplicable to the trade with EU due to unavailability of data on the volumes and the very different figures on values from Bulgarian and EU custom statistics.

BG Import Average for 1993 - 2000 in % of Total BG Import from SEE



In the case of imports Bulgaria has too many importers from Turkey compared to the values and volumes of trade. It is difficult to draw a general conclusion but it is obvious that there is a concentration of companies competing similar amounts of trade between Bulgaria and the Balkans, which itself constitutes a relatively small share of the total Bulgaria's trade.

BULGARIA'S IMPORT FROM THE BALKANS, AVERAGE FOR 1993-2000 (%)

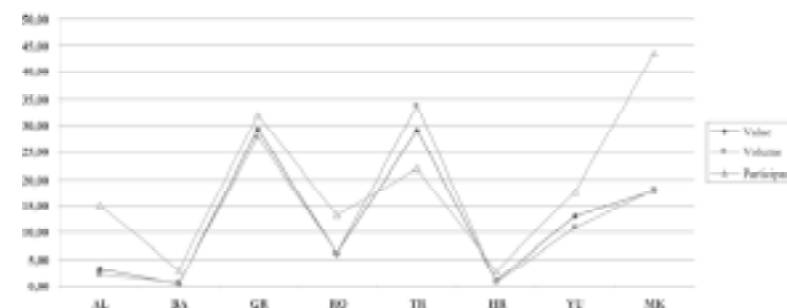
	Value	Volume	Firms
Albania	0.04	0.04	0.50
BiH	0.07	0.04	0.32
Greece	45.35	33.99	35.08
Romania	14.85	31.42	9.19
Turkey	21.48	17.58	55.88
Croatia	0.91	0.68	0.95
Yugoslavia	4.24	4.69	3.42
Macedonia	13.07	11.55	11.70
SEE	100.00	100.00	117.00

Source: NSI, Customs statistics, IME calculations

Particularly high concentration of importers relative to the value and volume of trade, besides Turkey, is in the case of Bosnia and Herzegovina, while it is relatively on the balance in the imports from Croatia and is somewhat more efficient in the similar relation with other parts of the Balkans.

In exports participants outnumber both values and volumes of trade with virtually all countries except Turkey. This is to be explained by the nature of the Bulgarian exports to this market, which consists mostly of electricity and energy resources. Especially inefficient seems the export to Macedonia and Albania. Part of the explanation is to be found in difficult administrative conditions and non-tariff barriers. Given the longer term we have the opportunity to compare and the rather unstable commodity structure of the exchange between Bulgaria and the Balkan countries, it is strange that companies still seek opportunities for arbitrage and profit. It is likely that part of the explanation is in the poor markets' information readily available for the region.

BG Export Average 1993 - 2000 in % of Total BG Export to SEE



**BULGARIA'S EXPORT TO BALKANS
AVERAGE FOR 1993-2000 (%)**

	Value	Volume	Firms
Albania	3.30	2.18	14.97
BiH	0.46	0.57	3.10
Greece	29.21	27.82	31.87
Romania	6.11	6.10	13.20
Turkey	29.15	33.74	21.92
Croatia	0.94	0.71	2.94
Yugoslavia	12.93	10.75	17.66
Macedonia	17.90	18.10	43.48
SEE	100.00	100.00	149*

Source: NSI, Customs, IME calculations

As a whole, it seems that exports to Balkan countries are more inefficient than imports: the concentration of exporters is higher than that of importers for all the countries.

As mentioned, these comparisons do not allow for firm explanation but they have a heuristic power. Bulgaria's attempt to trade more with neighboring markets seems quite persistent, regardless the diverse circumstances of 1990. It is possible to suppose that elimination of the institutional barriers would release greater efficiency and would contribute to the growth of the Bulgaria's Balkan trade.

FDI and Trade

A different way to look at the trade potential is to compare the demographics of Bulgaria with its global share in FDIs. Such a measurement has been proposed as a part of general benchmarking on Bulgaria's economy by the US based consultant company J.A. Austin Associates (JAA). JAA compares Bulgaria's FDI for a selected year with its share in the global population. In 1998, the first year of a relative breakthrough after the crisis of 1996-1997, Bulgaria attracted

USD 401 million FDIs, which put her on 61st place out of 162 countries on which information was available for the World Development Indicators of the World Bank. Between EU accession countries behind Bulgaria in that year there were only three countries: Latvia, Slovenia and Cyprus.

BULGARIA'S SHARE IN GLOBAL FDI FLOWS¹⁶

Country	FDI in US\$ Millions	Population Millions	Share of World Population	Share of Global FDI	FDI per capita	FDI/ Population Ratio	Percentile Rank
Singapore	\$10,326	3.164	0.05%	0.78%	3264.20	14.43	95
Ireland	\$4,038	3.766	0.04%	0.36%	1069.88	4.02	88
Spain	\$32,639	39.371	0.67%	2.45%	829.47	3.05	83
Czech Republic	\$2,809	10.295	0.18%	0.20%	263.42	1.12	76
Hungary	\$2,414	10.114	0.17%	0.18%	238.72	1.06	73
Romania	\$2,040	22.503	0.38%	0.15%	90.65	0.40	53
Macedonia, FYR	\$118	2.010	0.03%	0.01%	58.52	0.28	42
Bulgaria	\$401	8.257	0.14%	0.03%	48.61	0.21	37

Source: World Development Indicators, JAA calculations

JAA assumption is that FDI/population ratio might be considered "fair" if it is at least close to 1. Obviously this is a conventional assumption, but it helps comparisons. While Bulgaria's FDI share is six times smaller the share of the world population, Hungary and the Czech Republic, although having a similar size of the population, look considerably different.

The development is the following. In 1998, FDIs as percent of GDP constituted 3.3%. A year later it almost doubled to 6.1%. In the years after 1998 the inflow of FDI is on the average 30% higher per annum. Accumulated stock of foreign direct investment in 2000 would

¹⁶ Martin Webber, Kevin Murphy, Bulgaria's Competitiveness Beyond 2000, J.A. Austin Associates, Washington DC, Sofia, 2000, p. 14. WDI figure for 1998 Bulgaria FDI is different from that officially accepted by Bulgaria's Foreign Investment Agency; WDI does not take into account reinvested earnings and credits, if we add to them the figure would be USD 620 million.

be at least 21% of the GDP. It would be twice less than the share of FDIs to the GDP of Hungary but roughly the same percentage as in Poland.

FDIs per country of origin give more information on provisional trade developments. Presumably, the trade would be sustained or even improved if trade partners interweave respective economic entities and cooperate. As mentioned in a different context, in 1999 EU capital had 60% of the FDIs in Bulgaria, in 2000 this share will be already 63-64%. (In terms of per capita the figure would almost double the amount of 1998.) Similar but higher shares of EU investment have the Central European countries.¹⁷ On the SEE scene similar is the performance of Croatia and Romania.¹⁸ An interesting development is that of the Italian investment. Italy use to be a prime trade partner for the last ten years, but in terms of direct investment she has been at bottom of the list with only USD 35 million. In 2000, the fourth biggest Italian bank, with a major presence at the emerging European markets, Unicredito Italiano, bought the biggest Bulgarian bank. Thus Italy's Bulgarian position as a second trade partner converted itself into a third investor. The structural impact of such development cannot be underestimated: it has finalized the privatization of the Bulgarian banking sector, diversifying the foreign presence in accordance with the major trade and investment partners.¹⁹ As of the end of 2000, Germany, Belgium and Italy would amount to over 40% of the investment in Bulgaria.

¹⁷ Gabor Huya, FDI in SEE: Implementing Best Policy Practices, WIIW, 2000, p. 5.

¹⁸ Ibid. p. 5-6.

¹⁹ The EU ownership of the Bulgarian banking system is about 70%, with other investors like Societe Generale, National Bank of Greece, AIG, Reiffeisen Bank, ING, etc. Structurally significant Italian investment is taking place on a smaller scale as well, e.g. a leading Italian woolen textile producer bought earlier this years one of the biggest Bulgarian factories (with 30% of the assets in the sector and 25% market share), inducing domestic rivalry and thus changing the future of the entire sub-sector in the textiles.

FDI BY SOURCE AND YEAR (MILLION USD FOR 1992-2001*)

Year	Privatization	Portfolio	Greenfield	Total per year
1992			34	34
1993	22	n.a.	80	80
1994	134.2	n.a.	76	200.2
1995	26	n.a.	136	162
1996	76.4	n.a.	180	256.4
1997	421.4	29.7	185	636.1
1998	155.8	64.2	400	620
1999	305.7	53.1	447	805.7
2000	480	20	500	975
2001*	400	25	450	875
Total period	2,021.5	192	2,488	4,676.5

Source: Foreign Investment Agency (FIA), IME

[* - IME forecast.]

Earlier foreign investors, like Belgium based Solvey and Union Miniere, have bought respectively major chemical plant producing soda and a copper smelter. They build up their advantages on the originally subsidized in mid-1990 markets, restructured the enterprise and provided a bridge to sustained exports without relying on quasi-fiscal transfers. Similar developments take place in the textile and knitwear industry.

It seems that the structure has been established, and it will not allow for sharp decline in trade values and quality. Exports for 1999 and especially 2000 have demonstrated stronger exports than ever before in the last decay. Low value added is still significant with 17% net growth in the first six months of 2000. But this is to be attributed to clearing up stocks from the last year and partially accelerated restructuring after privatizations in 1998 and 1999.

The Balkans in the European Integration Context

After the Kosovo crisis there are international political developments, which will eventually result into some sort of equalization of the international trade frameworks for Bulgaria and the rest of the region. The current Bulgaria's predisposition to the region is shown in the following two tables. But situation may change due to political developments.

BULGARIA: RELATIVE SHARE OF EXPORTS TO BALKAN COUNTRIES (%)

	1992	1993	1994	1995	1996	1997	1998	1999
Greece	4.6	6.2	7.8	6.9	7.1	8.3	8.8	8.6
Turkey	6.3	7.6	5.1	7.2	7.9	9.0	8.2	n.a
FR Yugoslavia	4.4	3.5	3.6	1.6	4.7	2.5	1.9	4.1
Romania	2.8	2.5	1.6	1.8	1.5	1.3	1.2	1.4
FYROM	4.0	6.1	10.3	8.1	3.0	2.0	1.8	2.7
Slovenia	0.1	0.2	0.9	0.4	0.1	0.2	0.8	0.9
Croatia	0.4	0.3	0.3	0.3	0.3	0.3	0.1	0.1
BiH	1.4	0.2	0.0	0.0	0.0	0.1	0.2	0.2
Albania	1.3	1.0	1.3	1.1	0.9	0.5	0.5	0.8

Source: NSI

BULGARIA: RELATIVE SHARE OF IMPORTS FROM BALKAN COUNTRIES (%)

	1992	1993	1994	1995	1996	1997	1998	1999
Greece	5.6	3.5	4.8	4.4	3.9	4.2	5.8	5.7
Turkey	1.6	1.6	2.0	1.8	1.9	2.1	2.9	n.a.
FR Yugoslavia	1.3	0.1	0.0	0.1	1.1	0.8	0.7	0.3
Romania	2.4	2.1	1.9	1.1	1.4	1.2	1.2	1.3
FYROM	0.8	1.6	3.1	3.1	0.6	0.5	0.7	0.5
Slovenia	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.4
Croatia	0.0	0.1	0.0	0.1	0.1	0.2	0.1	0.0
BiH	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Albania	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: NSI

Countries of the so called Western Balkans are on the route to signed EU Stabilization and Accession Agreement which in tackling trade issues are similar to EAA's of Bulgaria and Romania. In November 2000, the EU adopted a 97% non-tariff treatment of its trade with these countries, maintaining quota-approach for agriculture produce, fish and wines. There are talks of debt restructuring and reductions, which could put other countries of the region in a position towards financial markets comparable to that of Bulgaria.

DEBT RESTRUCTURING AND CREDIT RATINGS

	Debt restructuring		Credit ratings [Moody's/S&P]
	Paris club	London club	
Albania	Dec. - 93	Jul. - 95	-
BiH	Oct. - 98*	Dec. - 97*	-
Bulgaria	Apr. - 91 Apr. - 94	Jul. 94*	B2/B
Croatia	Mar. - 95	-	Baa3/BBB-**
Romania	-	-	B3/B-
Macedonia	Jul. - 95	-	-
Yugoslavia	-	-	-

Source: IMF; World Bank. [*- Restructuring involved debt reduction;
** - plus investment grade rating.]

Bulgaria's advantage is that of a relatively early comer. It has debt restructuring agreement and it exists on the international capital flow map, performing modestly. Similar is the comparison to other SEE countries in terms of membership in international organizations and initiatives with more direct or remote relation to trade frameworks.

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS AND INITIATIVES²⁰

Countries	Key trade related organizations				Key EU agreements		South-East Europe Initiatives				
UN/ECE	WTO	WCO	OECD	ICC	European Union	EFTA	BSEC	CEI	SECI	SE Stab. Pact	
					TR	PECO					
Albania	(WTO)	WCO	GSP, (SAA)			(UTA)	BSEC	CEI	SECI	SESP	
BiH					ATP	(UTA)		CEI	SECI	SESP	
Bulgaria	WTO	WCO		ICC	EAA& invit.	PECO	FTA	BSEC	CEI	SECI	SESP
Macedonia	(WTO)	WCO		(ICC)	TCA (SAA)	(SAA)	(UTA)		CEI	SECI	SESP
Croatia	(WTO)	WCO		ICC	ATP		(UTA)		CEI	SECI	SESP
					(SAA)						
Romania	WTO	WCO		ICC	EAA& invit.	PECO	FTA	BSEC	CEI	SECI	SESP
Yugoslavia				INCC-NC			(UTA)				SESP

Notes: Brackets mean either a procedure to join (ratify) or status of an observer and/or unclearly defined membership.

²⁰ ECE - Economic commission for Europe, Geneva; WTO - World Trade Organization, Geneva; WCO - World Customs Organization, Brussels; OECD - Organization for Economic Cooperation and Development, Paris; ICC - International Chamber of Commerce, Paris (important for setting rules of conduct and international dispute resolution); EU - European Union, Brussels; EFTA - European Free Trade Association, Brussels; BSEC - Black Sea Economic Cooperation; CEI - Central European Initiative; SECI - Southeast European Cooperative Initiative; SESP - Southeast Europe Stability Pact; SETI - Southeast Europe Trade Initiative (SETI is a rather advocacy group, securing businesses' support for values and projects of SECI and SESP); EAA - European Association Agreement; TR - Trade Relations; PECO - Pan European Cumulation of origin; FTA - Free Trade Agreement; CU - Customs Union; ATP - Autonomous Trade Preferences; GSP - Generalized System of Preferences; Stabilization and Association Agreement (SAA); TCA - Trade and Cooperation Agreement; UTA - Unilateral Trade Agreement (an EU model to liberalize its tariffs for Western Balkans.)

The EU has established a variety of bilateral relations with SEE countries. In each case, the nature of the agreements is different. For Bulgaria and Romania, existing EAA's aim at establishing a free trade area and foresee a gradual liberalization of trade restrictions by both parties. In the case of the non-associated countries, the EU provides BiH, Croatia, Macedonia and Albania, wide ranging unilateral trade preferences, which in substance go back to the former cooperation agreement between the EC and Yugoslavia. The existing agreements are characterized by a more favorable treatment of industry and agriculture. A recent development here is the unilateral non-tariff treatment of Western Balkans and FR Yugoslavia provisional imports to EU (UTA). The agreement with Bulgaria and Romania provides for free trade in manufactures (with exceptions and limitations in some specific sectors e.g., steel) with a variety of transition periods (asymmetric between these countries and the EU) and some more limited specific preferential arrangements for agricultural products. The ATP's and the contractual agreement with Macedonia contains preferences covering both industrial and agricultural products. (Macedonia, along with Albania, BiH and Croatia is at the eve of signing Stabilization and Association Agreement²¹ with the EU that was set to serve as a model for other West Balkan relationship with the union.) As a general rule, industrial products are admitted duty free with no quantitative restrictions, within the limits of tariff ceilings for certain industrial products (steel).

WTO membership varies. Bulgaria and Romania are already members. Croatia, Albania and Macedonia are at the late stages of negotiations for WTO accession, while B&H is in the beginning. Yugoslavia was an original GATT member but the WTO has not acted on its application for accession.

²¹ By end of February 2001, Croatia and Macedonia have passed the second (out of three) rounds of SAA negotiations. SAA for Yugoslavia is pending, perhaps, by the end of 2001.

Directly related to trade are the columns of the table above, which lists trade organizations (and international standard setting bodies, OECD and ICC) and the EU accession. The third column (excluding BSEC) lists more or less political frameworks.

Increasing the competitive possibilities on enterprise level acts against protectionism measures on general level. Presumably, a country would liberalize and join WTO if and when relative competitive position of a critical mass of enterprise allow for resisting pressures of the open market. If such a stage were achieved, political bargaining to protect domestic players would loose economic “justification”. The case with SEE is far from such an ideal reasoning.

SEE TARIFF POLICY

Country	Nominal average import tariff %
Albania	15,9
BiH	7-8
Bulgaria	15.2
Croatia	12
Macedonia	15
Romania	19.8

Source: Council of Europe, IME calculations.

Tariff regimes of Romania, Albania, Bulgaria and Macedonia in 1999 on average are relatively restrictive. For comparison the average nominal import tariff of the Central European countries is about 10%. Croatia seems closer to these countries. At the same time the only two WTO members, Bulgaria and Romania could be considered as premature members.

The explanation for Bulgaria is pure political: memberships in WTO and other organizations and initiatives have equipped the government with arguments against domestic interest groups, which could oppose a policy towards greater trade liberalization and trade openness. If this

explanation is correct, Bulgaria’s membership in the trade-related organizations and the EU-accession is an important element of the domestic trade liberalization policy enforcement.

A special case is FR Yugoslavia. It is on the track of reassuming its due place in the international frameworks. The sooner it happens the sooner generally accepted principles would be applicable to SEE markets.

A beneficial option for Bulgaria and the SEE countries would be to adopt the same, uniform (uniform meaning that the same tariff is introduced across the region, on all or nearly products and services) and moderately positive tariff between themselves, realistically, roughly equivalent to the external EC tariff, e.g. between 5% and 10%. A free zone, ideally, is an imposing of a uniform tariff of 0%. Such a development is in fact under way through the EAA for Bulgaria and Romania and similar contractual models for the Western Balkan. Combined uniformity (the same tariff for all products and services) and similarity (enforcement by each country) duties on imports from other countries might serve as an instrument enlarging the market and motivating clustering. The merits of the existing international trade framework, with their fair chance of being properly followed and implemented, are the following:

- Uniformity would allow tracking cumulated rules of origin;
- Investors would consider the region as a single market, without formerly establishing such a market but forwarding integration with more sophisticated markets currently servicing as major trade partners;
- Regional players would easier utilize relative economic opportunities²², identifying niches, specialization venues and instances of clustering.

²²As P. Messerlin, J.C.Maur point out: the uniformity allows consumers and producers to face undistorted prices for goods coming from their immediate neighboring and from their largest supplier, the EU; see: P. Messerlin, J.C.Maur, Trade and Trade Policies in Southeast Europe, in V. Gligorov, M. Landesmann (editors), Economic Reconstruction of SEE. WIIW, Vienna, 2000.

Bulgaria seems well positioned to benefit from such developments; at least it is standing better than most of the countries. The same is visible and in SEE comparison in FDI.

In 1999, FDI increased in Croatia and Bulgaria but declined in some other countries, e.g. in Macedonia and Romania. Per capita inflow for Bulgaria is approximately 2.5 times less advantageous than for Croatia but as a percent of GDP the volumes are roughly comparable. But it is also important that the combined FDI inflow for Southeastern Europe in 1999 is 62% of the FDI to Czech Republic FDI for the same year.

Cumulative inflow per capita since 1989 is comparatively very low, more than seven time less than in Hungary or six time less than in Czech Republic.

**INDICATORS OF FOREIGN DIRECT INVESTMENT
IN SEE ECONOMIES (1998-1999 IN MILLION USD)**

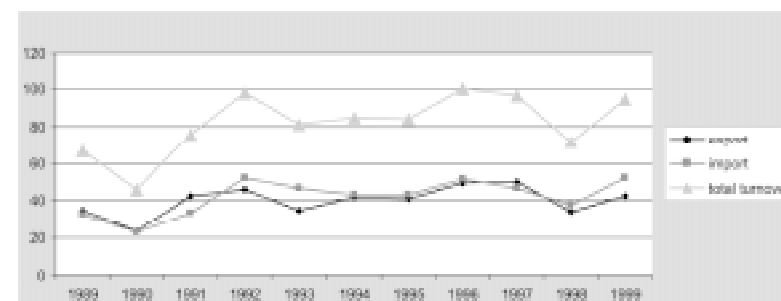
Country	FDI										Cumulative	
	Inflow		FDI abroad		Net		Inflow per capita		% of GDP		USD	Per capita
	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999	1999	1999
Albania	45	41	-	-	45	41	14	13	1.5	1.1	424	138
B&H	100	60	-	-	100	60	27	16	2.4	1.3	160	42
Bulgaria	537	739	-	-5	537	734	64	89	4.4	6.1	2,228	269
Croatia	873	1,332	-83	-43	781	1290	195	298	4.0	6.6	3,552	793
Romania	2031	961	9	-12	2,040	949	90	43	4.9	2.8	5,441	243
Macedonia	118	40	-	-	118	40	59	20	3.4	1.1	217	108

Source: UN/ECE secretariat

Conclusions

If we go back now to Gwartney-Skipton-Lawson Trade Openness Index, we may see that Bulgaria stay relatively on all the four factors (tariff rates, black market exchange rate premium, restrictions on capital movements, and the size of the trade sector). Tariff rates are moderate and two political processes (EU accession and Balkan cooperation) are exercising pressure to further liberalize trade. Black market exchange rate is eliminated, and exchange rate fluctuations do not significantly hampers the trade flows. Restrictions of capital movements are modest and institutions to link Bulgarian domestic are well-established vis-a-vis international banking system and trade partners. The size of the trade sector is high in nominal terms but at a closer look is rather inefficient.

TRADE FLOWS AS % OF GDP SINCE BEGINNING OF TRANSITION



Recently, the export performance worsened in 1998 and 1999. The decrease was due to ongoing structural reform, while impacts of international factors remained limited.

TERMS OF TRADE: BULGARIA 1989-1999

Terms of trade	1989	1995	1998	1999
Bulgaria	100%	69.4%	68.4%	58.4%

Source: IMF, IME calculations

On overall terms of trade has been deteriorating. Volume change in 2000 export is expected to be 14.8% and the unit value would improve by 4.3% (the import change respectively: 5.4 and 14.1%). This means that an overall improvement compared to 1988 might be expected only in a medium run.

The deterioration results from non-elastic foreign demand for Bulgarian exports due to unfinished adjustment and low competitiveness. In other words, fundamental developments like FDI, liberalization and tariffs have been uneven or hampered, and this is the reason, besides other factors of the trade openness, the potential for growth and prosperity to remain dormant or undiscovered.

Trade result for the entire 1993-1999 periods is negative (-410,866 USD).

EU has promptly become Bulgaria's most important trade partner with relative share of Bulgarian trade 73.92% for the period between 1993 and 1999. At the same time the price for the trade reorientation was the low value added and losses in previously complex factors of production due again to the lack of FDI to compensate for these development. Trade balance for the mentioned period with the EU is modestly positive USD 146,748.

The second trade partner for Bulgaria is SEE (including Turkey and Greece) with average share of 31.22% of Bulgarian trade over this seven years period. From SEE main trade partners of Bulgaria are Greece, Turkey, Macedonia and Romania with shares 11.74%, 9.67%, 6.73% and 3.09% respectively.

BULGARIA'S EXPORT/IMPORT AVERAGE FOR 1993 - 1999

Country/region	Export	Export %	Import	Import %	Balance average
Bulgaria-World	4068211.56	100.00	4,479,077.90	100.00	- 410,866.34
Bulgaria-EU	1646877.80	40.48	1,497,972.13	33.44	146,748.64
Bulgaria-SEE	937413.96	23.04	366,204.30	8.18	571,209.66
Bulgaria-CEFTA	162385.30	3.99	201,245.36	4.49	- 35,284.61
Bulgaria-EFTA	44067.33	1.08	84922.17	1.90	- 33,627.97
SEE	937,413.96	23.04	366,204.30	8.18	571,209.66
Albania	36,547.37	0.91	223.94	0.01	36,323.43
BiH	4,266.27	0.11	365.64	0.01	3,900.63
Croatia	10,638.36	0.26	3,934.03	0.1	6,704.32
Greece	304,854.36	7.59	163,705.99	4.15	141,148.37
Romania	65,979.73	1.64	57,100.75	1.45	8878.98
Turkey	311,169.64	7.75	75,834.29	1.92	235,335.36
Macedonia	203,958.23	5.08	65,039.66	1.65	138,918.57

Source: NSI, IME calculations

The analysis of the longer period of Bulgaria's trade development suggests that there are two most likely directions - EU and SEE. On both of them Bulgaria had already repeatedly registered more exports than imports.

The development of the trade potential depends on economic and political factors: enlargement of the market, restoration and use of complex factors that would allow for better competitiveness and provisional clustering while all these depend on the political will to maintain late 1990's reforms and developments on track.

Summarizing we can draw the following conclusions. Bulgarian economy happened to be resilient to external shock, but more so after the introduction of the currency board arrangement in 1997. It is not simply a merit of the arrangement per se but, practically speaking, it has helped to follow a set of policies, which eventually offset negative developments on the international markets. It is no accident - in early and mid-1990's more crucial domestic policy deficiencies and

constellations mediated external shocks. In the cases of embargoes etc. they aggravated the negative impacts. In cases of international market turbulences, they prevented the shocks. In the post 1997 period, the economic restructuring is taking off from the limbo of the previous period. At the same time, besides structural inefficiencies and the ambivalent impacts of external factors Bulgarian economy managed to reorient its markets from the ex-Eastern block countries to the EU and the European free trade zone.

Attachment 1

Trade and Economic Structure at the Beginning of Transition

Bulgarian exports prior to political and economic reform of 1990-1991 had the highest CMEA-share in comparison to other member countries. Also, Bulgaria (along with Czechoslovakia) was the last to reduce CMEA-export in 1989, while others started as early as in 1986. Another peculiarity was that Bulgaria exported mostly to the ex-Soviet Union while others traded more significant volumes with one another. Roumen Dobrinski calculated that Bulgarian CMEA-trade in the second half of 1970's and 1980's averaged around 60% of the total. Closest to Bulgaria was Czechoslovakia, with 51-52%; Romania had a less than 30%, while Hungary and Poland were always between 40% and 50%.²³ In early 1980's Bulgaria has had an exclusive intermediary position between East and the West, importing cheap raw material and resources from the Former Soviet Union (FSU) and selling it recycled to international markets, and trying to resell back to the East COCOM-embargoed hi-tech products and computers. Between 1984 and 1989 it enjoyed

virtual CMEA-monopoly in this trade. This pre-history has long-term impacts on the reform years.

Bulgaria's economic structure in 1989 (59.4% industry, 29.7% services, 12.9% agriculture)²⁴, although similar to those of other Eastern block was more artificial (including the hi-techs component) and less competitive. It also depended on 90% FSU energy supply, used energy wasting technology and, with COCOM produce becoming obsolete, produced lower value added.

It was, in fact, a rent-seeking position. But in the 1980's it was interpreted as one of a good borrower, and the government sought financing from private lenders.²⁵;

²³ Roumen Dobrinski, *Transition Failures: Anatomy of the Bulgarian Crisis*, Vienna, WIIW, 1997, p.7.

²⁴ Source: Bulgarian National Bank (BNB) Annual Report 1991, p. 17.

²⁵ In March 1990 Bulgaria unilaterally announced a moratorium on its foreign debt payments, and in 1991 - the first reform year - the Bulgarian foreign debt amounted to 150% of GDP and 271% of the exports (BNB Annual Report 1991, p. 30), and the structure of the foreign debt was 80% to private lenders and 20% to official lenders.

Attachment 2

External Factors for Trade Performance in 1990s

For all countries in SEE there were shocks, which distorted trade volumes and routes through adjustments international capital flows or via impacts of military conflicts and embargoes. Bulgaria's experience is as follows.

There have been five shock waves related to: the disappearance of the CMEA, the embargoes on ex-Yugoslavia and Macedonia, 1997 capital market turbulence, 1998 Russian crisis, and the Kosovo crisis of 1999, plus the hike of oil prices and depreciation of the EURO in 2000. The impact has been of different significance and consequence.

1. As mentioned above the longest-term impact came from the first shock. The disappearance of FSU and ex-Eastern block as market led to under-investment and contraction of GDP: by 31% in 1991 compared to 1989²⁶. In 1990, FSU still hold for 52% of Bulgaria's exports (down from 56% previous year) and 49% of the imports (down from 54% in 1989). As reported by BNB, in 1991, the total export volume contracted by 34.6%. Important imports remain mostly in energy resources, but situation is changing there as well: these import in 1994-1997 were equal to average 10% of GDP, for next three years - to 4.5% of GDP.

2. The impact of the embargoes on ex-Yugoslavia and Macedonia was of a more institutional than of pure structural nature. It contributed to the preservation of high port fees of Varna and Bourgas, making them not competitive even after 1995. In 1992-1994, Macedonia doubled its share in Bulgaria's trade compensating for the lost markets in FR Yugoslavia. Violation of the UN embargo on FRY had become an

important factor to feed the informal and semi-legal economic activities within the country thus implanting longer-term pro-corrupt domestic economic ethics. This period coincided with Bulgaria moratorium on its foreign debt payment. The central bank followed policies of managed floating and base interest rates. Profit and asset repatriation regulations were fairly liberal, interest rates were attractive and this constellation contributed to estimated USD 300-330 million capital flight from neighboring countries to Bulgaria. Cheaper access to financing combined with a cross-subsidy via energy prices, soft loans and postponed liabilities contributed to a temporary improvement of exports in 1994, which was not sustained in the next period.²⁷ The 1994 Brady Plan with the London Club of private lenders (backed by international financial institutions) required stricter financial discipline. Foreign capital inflow was not linked to investment opportunities due continued until 1997 stalemate in privatization and quasi-fiscal support to loss-making state owned enterprises. On the balance, 1992-1995 embargoes (coinciding with other developments) could create growth, investment and export opportunities for Bulgaria provided there were healthy economic structure and proper policy-mix to utilize those opportunities.

3. Besides its openness, Bulgarian economy remained virtually untouched during October - November 1997 crisis of the global capital market, the Asian Crisis and the Russian financial collapse of Summer 1998. The explanation for the former is in the underdeveloped nature of the Bulgarian stock market as in the unclear supply and doubtful demand side of this market. The direct consequences of the Russia's crisis have been minor as well, because low Russia's share in Bulgarian exports (about 6.6% in the first half 1998), further declining to 5.2% in the first six months of 2000. Bulgarian products have already had difficulty accessing Russian markets, due to both economic and political reasons. The economic reason was mainly the low

²⁶ Source: National Statistic Institute (NSI).

²⁷ See the paragraph on trade orientation.

competitiveness of Bulgarian industries, while the political one was in the high import tariffs. Hence, the collapse of the Russian market did not drastically affect Bulgarian exports to Russia, given the fact that they were not high anyway. Imports from Russia accounted for around 28% in the first half of 1998 of all Bulgarian imports, mainly energy resources and mineral products. Since Russia was interested in achieving a stable supply of hard currency, imports were not affected as well.

4. Direct costs of the Kosovo²⁸ crisis for Bulgaria were negligible. They include \$ 0.7 million aid to the government of Macedonia, and officially registered 317 Yugoslav refugees. The war rather highlighted inherited weaknesses than served as a sole reason for Bulgaria's poor economic performance in 1999. In 1999, exports of goods and services went down by 16%, while imports decrease by 3% only. During the first three months of the year, effectively before the war, export industrial sales had already fallen by 26%. Domestic sales fell by 12% for the same period, and GDP went down by 0.7% compared to the same period of 1998. The poor performance was already there before NATO air strikes. The immediate shock was perhaps most obvious in April 1999 when exports dropped from \$ 335.1 million²⁹ in March to \$ 283.7 in April. Imports went down as well, but at much slower pace: from \$ 453.7 to 442.9 million. The aggregated decline in the imports for the first half of 1999 is only 1% while exports were down by 21.7%. This difference suggests that physically interrupted trade routes were no single factor of worsened Bulgaria's competitiveness, although there were delays in deliveries. In fact exports improve in April - June 1999, and the

²⁸ Views of the authors differ from those of the majority of Bulgarian economic observers.

²⁹ March was exceptionally good month for 1999 exports, the only month equaling to the average monthly export volume of 1998; April represents rough average monthly export for the first half of 1999.

GDP has picked up by 1.6% compared to the same quarter of the previous year. Eventually, the real GDP growth in 1999 was 2.4%. It seems that for pure domestic reasons Bulgaria has reached the bottom of economic performance before the crisis and on its aftermath it behaved relative independently from external influence, the main reason being, perhaps, the low recovery starting point in 1997.

5. 2000 brought about continuous increases of the petroleum prices and weakness of the EURO against US dollar. Depreciation of the EURO approaches 30% since the introduction, the Bulgarian currency; the Lev (BGN) is pegged to the EURO at 1.96, and in the first half of November BGN is 2.3 for US dollar (up from 1.9 a year ago).

6. Oil and natural gas import is 23% of the total Bulgaria import in the first 6 months of 2000. If oil and gas are excluded from the current account the deficit is rather modest, USD 23 million in the first quarter of 2000. (In 1999, the same figure would be USD 170 million.) The reason is in the fairly good performance of non-oil exports. Although the current account deficit in 2000 is about 8.25 of GDP (the government forecast is 4.5%³⁰), the balance of payment of the country remains enough strong to absorb pressures from hiking oil and gas prices. It is due to the high foreign investment record in the first nine months of 2000, amounting USD 600 million. On the other hand, in the period of 1994-1997 Bulgaria was spending on average 10% of its GDP on oil and gas imports; in 1998-2000 this figure is 5%, which basically means that there is a tendency towards lowering the overall energy dependency.

³⁰ Marcin Wiszniewski has calculated that the current account deficit would increase by 0.17% for each USD 1 increase of the average oil price, see: Marcin Wiszniewski, Bulgaria Resilient to Oil Shocks, Fixed Income Research, Morgan Stanley Dean Witter, September 2000, p. 2.

7. As to the depreciation of the EURO, it does not harm significantly the country's balance of payment, though 65% of its foreign debt is US dollar denominated. The weaker EURO adds 0.23-0.24% of GDP to 2000 fiscal costs of debt service.³¹ The exports is, perhaps, benefiting from the cheaper EURO, although the history of the 1990's proved that structural factors are more important than the exchange rate in Bulgaria's export performance.³²

³¹ 2000 debt service ratio would be 17.6-18%.

³² See: Assenka Yonkova, Krassen Stanchev (editors), In Search for Growth: Policies and Lessons from Bulgarian Transition, IME Newsletter, Vol. 5, № 11-12, 1999. See also similar on the exchange rate impact on Bulgaria's competitiveness in: Bulgaria: Selected Issues and Statistical Appendix, IMF Staff Country Report No 00/54, IMF, April 2000, p. 14-18.

THE BALKANS AFTER THE FALL OF MILOSEVIC: PRIORITIES OF THE BULGARIAN FOREIGN POLICY

ROUNDTABLE DISCUSSION

Organized by the Institute for Regional and International Studies with the financial support of the German Marshall Fund of the United States

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PANEL I:***THE CHANGES IN THE
REGIONAL SITUATION AND
PROBLEMS OF SECURITY*****OPENING ADDRESS**

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 and International Studies**

Our aim as organizers is to incite a completely free debate between people, which are working on the problems of the Bulgarian foreign policy and especially in its regional context, so to define a set of opinions. The opinions expressed would be useful to politicians, making decisions, and to opinion leaders, who comment on these decisions and who create the public opinion about what is and what should be the foreign policy of Bulgaria in its regional dimension.

Let me start with an assessment — the fact that the Balkans after Milosevic does not seem to be so different. In truth,

the only change since October 5 is that the regime in Belgrade, which we were used to see for a decade in the 1990s was removed and there is a new government in Belgrade. Processes of democratic change and transformation of society have started in Yugoslavia. But simultaneously with it, all other factors that have characterized and structured the situation in the Balkans — local and regional ones as well as international factors seem to be unchanged. They remain constants in regard to the region. The international community commitment towards the region through the KFOR forces remains constant. The engagement of the international community through the international forces in Bosnia remains constant. The problem with growing irredentism of the Balkan communities remains constant. The problem with the perplexed balance — institutional and ethnic — in neighboring Macedonia. The problem of how the countries in the region could deal with organized crime and economic mafias in the region, etc.

This representation of continuity through maintaining the major inertial factors is though to a great extent illusionary. It is true that all these factors are preserved and maintained but in strategic terms their combination, their restructuring in a completely new regional situation according to me cannot be questioned. Without any doubt, any of these factors will be transformed and its action will be changed as a result of this fundamental change, which follows the change of the regime in Belgrade.

It is of crucial importance to Bulgaria and to the Bulgarian foreign policy that the factors, on which the adequate pursuit and protection of the Bulgarian national interest is dependent, be optimized in such a way that Bulgaria could obtain maximum benefit from the changed regional situation and the changed context around the Balkan peninsula. To achieve this, an ongoing and fruitful debate should be held about what should be the strategy of the Bulgarian

foreign policy, both in regional and in European context.

Let me go back to the basic aim of our conference. We do not nurture the ambition and self-confidence of people who could offer such a strategy. But we could pose the questions about the situation to the extent that the problems defined by us are taken into consideration when the further strategic benchmarks for the development of Bulgarian foreign policy are being set.

I would like to dwell on some basic characteristics of the situation in the way it is changed after the downfall of Milosevic. On the first place, obviously it is true that with the end of the former regime in Belgrade ended what we could call “sanitary belt” around Yugoslavia that existed for almost a decade. The countries in Southeastern Europe for eight-nine years operated as a belt around the processes of instability and disintegration in former Yugoslavia. A belt, which was aimed at amortizing and preventing the spillover of these processes in the wider European space. This sanitary belt had a strong negative impact to all the countries in the region, including Bulgaria, but it also brought about some certain advantages.

We should not be blind when assessing this balance of gains and losses resulting from the internationally imposed sanitary belt system in the last ten years. The adequate assessment of this system will provide us with capabilities to plan for the behavior of the Bulgarian foreign policy in the future. Among the negative characteristics of the sanitary belt, which in the end appear to be positive effects of its termination, is on the first place isolation. Complete isolation, physical isolation, including in the areas of transportation, economy and trade, lack of foreign investments because of regional instability. As we all well know, it is not important whether Bulgaria is in the epicenter of instability or it is out of it. After all it is in the Balkans and we are all in the

Balkans and the instability is Balkan. This kind of isolation has been terminated after the fall of the regime in Belgrade. The interest to the region will grow. It is another story that there is a number of other factors that will diminish this interest. But this kind of isolation, which was generated by the disintegration processes in Yugoslavia, is coming to an end. The second negative characteristic of the sanitary belt is the extremely artificially generated instability in the region. This, what we have observed for almost a decade — the particular ability of Mr. Milosevic to export his internal problems and the internal tensions from Serbia and Yugoslavia to the neighboring countries and regions is obviously finishing with the end of the regime in Belgrade. Whoever comes to power in Belgrade from now on will be compelled to cooperate and to be cooperative with the other countries in the region and with the international community in resolving the basic problems that have remained as a legacy of former Yugoslavia and the post-communist legacy in general.

At the same time, the end of the sanitary belt does not mean only and entirely positive things for Bulgaria and the other countries. On the first place, what will appear as a problem, and in fact is already demonstrated, is the circumstance that the end of the sanitary belt ends the division of the countries in the region into good and bad ones. And if Milosevic’s Serbia was “bad”, Bulgaria in this context, obeying to some general rules of behavior in the region could be among the good or stabilizing factors even in times when nothing else but a passive observation was a characteristic of Bulgarian foreign policy, especially until mid 1990s. Now there are no good or bad countries in the region in principle. There is a certain equalization of the chances of the countries in the region, and of course this does not mean that those which have gone a longer useful way will not be encouraged, but

nonetheless all by assumption are potentially “good”.

The last feature of the period, commenced after ousting Milosevic and which puts an end to the so-called sanitary belt is the characteristic, related to the fact that the “belt” was removed for Bulgaria. It has been removed for Romania, Croatia, but has not been removed completely. The sanitary belt is shrinking and at the moment it is what characterizes the relations between the Serbs and the Albanian communities. Unfortunately, it still includes our friends in Macedonia as far as they are also directly related to the way the Albanian question in the Balkans will develop. So, the sanitary belt preserves its characteristics of being a minimum net of security around the completely shrunk epicenter of potential instability in the region.

Secondly, as a topic of consideration today I would like to put the problem of Bulgaria and the current and forthcoming factors of instability in the region. The first one is the problem of sovereignty and self-determination as principles and as particular problems for the Balkans region. What should be the Bulgarian attitude towards all these extremely dynamic problems, related to the status of Montenegro, Kosovo, and other regions in former Yugoslavia, if there is a radical change of this type of status in closest future? Should we unconditionally support the independence of these countries and regions, or, on the contrary, we have to support unconditionally the sovereignty of nations from which they try to secede. What should Bulgarian foreign policy be in view of Bulgarian long-term interests in the region as a whole? It is not an ideological problem, though in Bulgarian political context it has been considered as such. For example, the right parties have one position, while the left parties have just the opposite. It is very unwise to make artificial ideological divisions on these issues. These are problems concerning long-term interests of Bulgaria in

the region and in Europe.

The second problem is: how we could participate in the process of limiting and ultimately in combating mafias in the region? There is no point in talking about regional cooperation and exchange between nations in the region until non-institutional, illegitimate economic and other types of exchange dominate this exchange. Unless we combat this type of organized crime in the region, and economic crime in particular, unless we put these processes under control such recommendations of philanthropists like Mr. George Soros and European Commission officials for creating a common customs area in the Balkans will not be practically feasible. Because from the very moment the customs and border control checkpoints are removed from Kapitan Andreevo to Maribor a common space is formed where people of good and bad nature will shuttle. And all this is very sensitive to the Schengen issue, very popular in the last few days. The common customs area and the free border crossing do not match the European criteria for how borders should be protected by a country recently excluded from the Schengen list. This is a problem, which also should be examined and structured within our debate.

The next problem, which Bulgaria will be interested in, especially in certain circumstances, is whether there will be a spillover of domestic instability within Serbia. Serbia is still to face a process of economic, social and political transition. This type of transition could lead to such kinds of domestic instability that Bulgaria has witnessed in the first half of the 1990s. And having in mind the recent history of Serbia, the availability of arms for quite many people and the fact that due to the embargo and the nature of the regime in Belgrade the greater part of the Serb economy is underground, illicit economy. The decentralization of institutions of power after the regime fell down could easily cause the decentralization of the

oligarchy Mafia, existing for many years under the auspices of Milosevic, which could start bringing such processes throughout the region. This is an extremely important problem.

The last of these factors of instability is how Bulgaria along with the other countries in the region will contribute to controlling and containing of what we call ethnic conflict. The ethnic conflicts are not over and will not be over soon. We can not make an optimistic forecast for the termination of ethnic conflicts in the region. Especially in some parts of the Balkan region they will continue having in mind their current dynamics. The region as a whole needs a strategy for ethnic conflict containment and gradual ethnic conflicts settlement for long-term historical periods. How to contain the ethnic conflict? I would like here to propose an idea — could we contain the ethnic conflict and meanwhile advocate for greater and greater minority rights thus stimulating the attempts for autonomization and separation, neglecting the fundamental issue that there are no group rights without individual rights. And there are no individual rights without institutions to guarantee them. There are no civil rights and no civil equality without liberal-democratic institutions to assume responsibilities for the respect of other people's rights.

When we talk about ethnic conflict, the point is not only in terminating the bloodshed and clashes between two communities but how the Balkan region as a whole will be developed institutionally from now on. Without the success of liberal-democratic institutions, effective judiciary, etc. we could hope for neither ethnic conflicts containment and settlement, nor emergence or “whitening” of the economies of these countries which currently are two thirds in gray and black, if not more.

The next problem is whether Bulgaria is going to be a part of the Balkans or a part of Europe. It is a question coming out of a political campaign. It was risen mainly by Mr. Assen Agov's

statement followed by some other deliberations that unless Bulgaria is given a more favorable visa status, it would withdraw from the Stability Pact. But it is not a matter of a political situation. It is a structural issue of Bulgarian foreign policy and whoever the decision-makers in Bulgaria and in the region will be they will face this problem. Because after the Kosovo crisis two models of integration in Europe have been formed.

The first model is the model of horizontal integration or integration of the Visegrad countries which strive on their own for membership through fulfilling the criteria. Yet, there is another type of integration — the vertical integration of countries, which EU “takes in tow” in one way or another. And currently these are the countries from the Western Balkans, though Croatia and Macedonia, according to me, do not deserve to be in this group. In this context, what is the place that Bulgaria is going to take — of EU representative in the Balkans (who has authorized it for that?) or of Balkans' representative in Europe (none has authorized it for that either, and besides there are no ways by means of which Bulgaria could be institutionalized in one of the two positions). On the one hand, it is obvious that Bulgaria is not interested in being in the same category as other countries in the region, which still have a long way to go towards European integration. On the other hand however, the self-isolation of Bulgaria from the regional process is an extremely dramatic retreat from our national interests because of the fact that Bulgaria's value for Europe and whomever else is value of a country being a part of the Balkans region. Without the context of the Balkans we are in the middle of nowhere, we have no value outside the Balkan region.

It is a formally logic paradox — we do not want to be in the Balkans in order to integrate ourselves in Europe and we can not integrate in Europe without having our own identity of

a country from this region. The formally logic paradoxes are usually solved by introducing additional dimensions, by introducing various viewpoints. I would like to emphasize several dangers that would arise if we really isolate ourselves from the processes of regional cooperation and integration.

First, in this region, we know from bitter experience, the one who comes at the top runs the risk of being opposed by all the others. And it is not a groundless hypothesis. Secondly, groups of problems are about to be formed that confront the interests of Bulgaria with those of other countries in the region. It is risky if these problems are not being solved. If we are to impose visas on Yugoslavia and Macedonia it will be not only a problem concerning Bulgarian cultural-historic heritage, not only a problem deteriorating the relations with countries and peoples not deserving such an attitude, but it will be a trade, infrastructure, political and whatever other problem. This problem should be discussed and solved.

The next problem is the relations with Turkey. It is not an artificial problem. When Bulgaria was the only access to the West for Turkey the bilateral relations were structured in one way, and now when there is an improvement in Greek-Turkish relations Turkey has greater space for maneuvers in its relations with Bulgaria.

Another accent is the Bulgarian-Romanian relations and their further structuring. These relations have never been easy. But due to the completely just differentiation referring to visa issues and the fact that Romanian parliamentary term will be colored in red and brown, the relations with this country will not be easy at all. This is also a part of the Bulgarian regional context.

The last but not least issue is the way Bulgaria will balance its policy within the triangle EU, NATO and Russia. The Prime

Minister Kostov was right, saying that once Bulgaria's visa status is eased the country would face a definite recoil mechanism. This reaction reflex could originate as from the region as well as from the East. It is a real problem. The more progress Bulgaria makes towards its integration in the European and Euro-Atlantic space the more difficult it will be for Bulgaria to maintain its relations with Russia. And Bulgarian politicians, government and society should not be blamed for this. The truth is that Russia aims at keeping its influence in the Balkans. The extent to which Bulgarian interests coincide with Russian ones is a matter of deliberations. But doubtlessly Russia's interest does not envisage quick and easy integration of Bulgaria in NATO and EU. From this point of view Bulgaria has to make its choice — whether it could succeed in integrating into the European and Euro-Atlantic space, or it will remain in the periphery of the Commonwealth of Independent States giving up to the eastward pressure. To those who would argue that such a dilemma is artificial and that we could balance between the East and the West by means of a successful foreign policy I would reply that it could be done but only depending on the ground position. The potential and power of one's own position is of primary importance. If Bulgaria becomes a NATO member in 2002 the balance then between the East and the West will be another story, much more cheerful and enthusiastic. Then Russia itself will treat Bulgaria as a country that could be its mediator in NATO structures, or at least would like Bulgaria to be in such a position.

Until Bulgaria is not in NATO and EU, this balance will be hard and all the compromises on this balance between the East and the West will frustrate the basic aims and priorities of Bulgarian foreign policy, i.e. integration in EU and NATO.

Thank you for your attention and welcome.

THE ROLE OF THE MILITARY FACTOR IN THE BALKANS

Valery Rachev

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Defence, Military Academy "G. S. Rakovski"**

According to me, the main problem is not whether the Americans will leave the Balkans in the hands of the Europeans, but whether they will leave the region in our hands. Then we will have a very serious problem.

To my regret and to the delight of all others, the military problem in the Balkans is not the hot issue of the day. This is my underpinning notion and I will try to address the issue of the military factor in the light of other policies of Bulgaria, and not the military policy of the state. In my opinion, obviously there is a common and steady tendency towards reducing the role of the military factor in the region in its traditional dimension, what was typical for the last ten years.

In Yugoslavia, for example, Kosovo is a well-protected area. I was thinking over a lot how I could define this fact in a very simple sentence. May be this is the most accurate expression — well-protected territory. There is no situation of a military character that cannot be contained. Speaking namely about Kosovo, predictions that the crisis there would erupt on the previous scale are groundless. The existing tensions in the Presevo valley are rather the last outburst of armed violence. They are provoked by the aspirations of the local population to join a process, which according to them is beneficial to their demands and they have been left out of it. They are playing with the strategic importance of the Presevo valley, which links Yugoslavia with the Mediterranean through

Macedonia and in fact is one of the most perspective transport corridors. There was a certain moment, this is my personal view, when KFOR delayed its response, waiting to be asked by the Serb side to take vigorous measures, so that the enhanced use of military power could assume commonly accepted character. So I do not think that the events in Presevo can destabilize the situation again. The very Serb army is demotivated, there aren't feasible political goals, which can be assigned to it and it does not have the same unconditional political support as it used to have. It cannot be any more an expansionistic force even in the context of former Yugoslavia.

In Bosnia and Herzegovina there was an interesting misbalance — on the territory of Republika Srpska there were fewer, but more experienced and motivated military prepared personnel, while the other republics' armies or military forces were just being established. Today, Republika Srpska no longer military dominates over the other parts of the configuration.

In the security relations between Greece and Turkey, the traditional character of the armed forces has the most visible, most tangible and potentially more real character. In this case, however, it is not only a matter of inertia from the past or impossibility of each of the parties to take the first step. It is either just too early or both sides estimate, that it is too early for them to start radical changes in their bilateral military policy for two reasons. The first one is that the political moment to do this is obviously not ripe. The second one is that they run the risk, in case willingness is demonstrated to reduce the role of the military factor in national security policy that other negative factors would take advantage of the situation: the Kurds in the case of Turkey and the Albanians in the case of Greece. The relative readiness of the two sides to change the status quo is supported by the fact that both of them

have planned radical military reforms, which manifest two trends similar to the both sides. The first one is aimed at reducing the number of armed forces. The second one is modernization of their equipment in order to meet the requirements for implementing missions, which are not related to traditional defense goals, e.g. missions that are more closer to crisis management than to defense.

The changes occurring in Romania are of primary interest to me. The political situation in the country has an intricate military-political aspect. It is related to the practice, I would not say tradition, where the military have a strong influence on domestic politics. I would not like to recall the past, going back to the fall of Ceausescu's regime, but in recent years, especially during the years of President Iliescu's first term in office, the military obtained exceptional authority in the country, their voice was heard in all foreign and domestic policy issues. This created them the image of an important, decisive factor in decision-making. Consequently, during the conservative government term it seemed that this role was related more to military expertise and advice. An indicative case is the suppressing of the miners' riot where military force was employed. After these events, a bill on crisis management was passed, which provides the armed forces a status, similar to the status of the National Guard in the USA, to intervene in riots. There was another symptomatic case. The establishment of associations, patriotic ones — I avoid using a stronger wording — with the participation of military, which challenged the non-partisan character and non-involvement status of Romanian militaries in domestic politics. In any event, even in case a bad scenario of the situation there occurs, it does not suggest using the Romanian armed forces in the internal affairs of the state.

I would like to say some words, in the context of our chairman's speech, about the impact of external factors on the

military-political aspect of security in the region.

Yes, indeed in the first place the most serious problem is whether the US military involvement in Europe, and in particular in the Balkans, will be reconsidered. In other words, do we have a real problem regarding the US engagement in the Balkans? I share my personal opinion that this problem does not exist and it is not going to appear. The analysis of everything that was said by candidate Gore's camp in relation to the US military commitments towards Europe and about peacekeeping missions does not allow to envision any serious change in the US policy, in case Gore is elected. Moreover, the Pentagon recently released the document "European Strategy 2000". By this document, the current leadership of the Department of Defense is trying to influence the policy of the next administration in regard to the involvement of the United States in Europe. From that point of view, the change in the status quo and in the pattern of US involvement in Europe cannot be expected.

There are two things to be mentioned in case Bush is elected President. The first one is that there is a balancing moderation in his words, especially after the initial blunders. Actually, in the end of his campaign he upheld the argument that they (i.e. the United States) were involved, they continue their mission, but on two new conditions. In the first place, in regard to defense the Europeans should increase their contribution. In the second place, in regard to peacekeeping operations the model of "simple participation" should be substituted by the achievement of concrete goals, i.e. it has to be started with policy of involvement and continue towards policy of achieving particular goals.

What is important for Bush's team is who is behind foreign policy. Behind Bush are the people, which involved the United States in the Gulf War. They are not isolationists, as the republicans

have been dubbed. Hence, despite some of the nuances of their statements, a change in US involvement cannot be expected. Furthermore, the military base in Gniljane, of about 300 hectares and well equipped, demonstrates a commitment within at least five-year term.

In the second place, there are several things to be mentioned in regard to the European Union and the development of the European Security and Defense Policy. First, since April 2000, the EU took up the command of the forces in Kosovo. More important, the headquarters of the corps, which the next year should become rapid reaction corps, is already acting as a General Staff concerning land operations. This is an indicative precedent: for the first time in the last fifty years the West violates the standard chain of command by inserting a corps headquarters, which in practice is not situated in the standard command institutions.

On the other hand, however, the European Union is obviously going too far in its development of a Common Security and Defense Policy. There are all indications that currently the policy of France is arousing anxiety in NATO Headquarters. The problem is that probably President Jacques Chirac is trying to use the mandate of France, and probably the power vacuum in the United States, to carry forward the process of building up European defense, of European military potential far away from NATO. This is a too ambitious goal, because it was not what he and Prime Minister Tony Blair agreed upon in the beginning when the process was launched. Now there is a certain need all steps in that direction to be constantly coordinated especially in regard to the forthcoming meeting in Nice. Also, as it was announced recently, all attempts to reach a consensus on an agreement, to be adopted in Nice, concerning relations with NATO have failed. This even necessitated special talks to be held

between the Secretary General of NATO and the Prime Minister of the United Kingdom. In this aspect, the process will depend mostly on the policy pursued by France and on the active involvement of the UK as a balancing and regulative factor. In this context, the position of Turkey is quite interesting. Obviously a certain attempt will be made to moderate Turkey's stand and one of probable scenarios is that Turkey will be granted to host one of the commands of the European forces, which will introduce a new element in the regional military-strategic situation.

From the viewpoint of NATO, Kosovo is of extremely military-strategic and military-political importance. This is somehow paradoxical conclusion, but looking at the map, especially if it includes the Middle East and Southwestern Asia, it is evident that from a strategic point of view the control of a protectorate, as Kosovo is, has great military-strategic advantages.

On the other hand, the control of Kosovo is a fact: it is unquestionable, it is accepted by the international community, while NATO enlargement towards the Balkans is a disputable issue and it is left to be resolved in the future. Hence, the interest of NATO towards the Balkans is confirmed. Moreover, this is an interest of one protectorate to another one, an interest, which does not pose questions about national sovereignty etc, a fact that facilitates a long-term NATO policy in the region.

The role of Russia in this situation has several levels. One of them is strategic: it is not clear yet whether the question of a strategic partnership between Russia and the West is still on (and was it actually ever on?) the agenda. There are two things that have to be taken into consideration when discussing this issue. In the first place, the United States would like to resolve the problems in their relations with Russia before building national anti-missile defense. It is also obvious that Russia would like to obtain the

largest possible share in managing European defense. I share the opinion that as after Dayton, as well as after Rambouille, one of the main tasks was to minimize Russian influence in Southeastern Europe as much as possible. With the fall of Milosevic this task was accomplished. The question is whether it was the end of the “honeymoon” between the West and Russia and what will be next? In tactical terms, what concerns us also to a greater extent, the activities of Russia in Kosovo during the crisis were in general irrelevant. From a military point of view this confirms the conclusion that it will take some time for the Russian military forces to become a real instrument of Russia’s foreign policy. The strengthening and consequently the stabilization of NATO’s military presence in Kosovo and in the region as a whole has in practice a deterring effect on Russia in areas where it does have its own interests.

Germany, besides its leading role in the Stability Pact, after the summit of Zagreb assumed a concrete influence on the processes in the Western Balkans. This is a complete control of the involvement of the Western countries in the region or at least an institutional control, which provides the opportunity to influence all aspects of Western policies towards the Balkans.

Last, some ideas about the projection of the military factor on the Balkan regional politics. According to me, the complexity of analyzing the military factor in security policy stems first of all from the simultaneous emergence of three factors. First, we have a successfully started process of international military cooperation. It is may be the only one, which positively, steadily and in a broadening perspective that have been developed in recent years. I just want to mention that within the framework of this military cooperation a deep change of the strategic culture of Balkan militaries has been taking place. It is about notions, underlying the

fundamentals of mentality, about way of thinking, even about “people’s psychology” of the Balkan people. It is not because I am a service man that I think that it should be invested systematically and assertively in international military cooperation. On the other hand, the reforms in the military sector, unfortunately, are still in the beginning and do not provide strong arguments to the foreign policy; i.e. we have more intentions and more plans than tangible results, which could be given to the foreign policy. Third, a basic problem of policy making today is the necessity to view the military factor not in terms of the traditional definition of the role of military forces, the way it is written down in the Constitution, but rather in terms of integration policy. The integration perspective, which is getting closer, puts a question, which should be solved by national authorities. This is the question whether we want to build up armed forces, following the model of the EU and NATO member states, or we want armed forces, which are situated within the realities of the Balkans and have the ambition to join NATO and the EU some time. I am not playing upon words. Behind these two theses, there is particularly big difference in the way the Bulgarian armed forces will be restructured and further developed. There is an array of other problems, which could be discussed. In the first place, who is going to support our military-political initiatives in the region? If until now this was undoubtedly the United States, is the European Union going to continue this policy, what will be the attitude of Great Britain, which shows exceptional interest, as within the Stability Pact, as well as on bilateral basis. I have already mentioned Germany.

In the second place, can we manage in appropriate timing and on the necessary level uphold our role of mutually accepted factor in the military-political relations between Turkey and Greece? I am referring to the context of changes, about which Mr. Ognyan

Minchev has already spoken. And in the third place, how we are going to fit into the European process of building Security and Defense Policy. Are we going to be only observers, waiting to be assigned the decisions taken, or we are going to find a formula to join, if not the decision-making process at least shaping the concepts and structuring of policies?

ORGANIZED CRIME: A MAJOR SECURITY THREAT

Jovo Nikolov
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Before Mr. George Soros forwards his proposal for Balkan customs' union, the organized criminal groups have actually done it by themselves. And the trafficking in drugs clearly indicates that there are no borders to organized crime. We can talk for hours on this issue. I will only try to outline some basic elements of the future development of organized crime, here in the Balkans.

It is a fact that Yugoslavia was and still is one of the main generators of criminalization in the region. During the war in Yugoslavia this was due to the repressive regime, the international blockade and the necessity to import raw materials, fuel and other goods. From this point of view, Milosevic's interest was to criminalize neighboring countries, thus maintaining as the economy and the population as well as his military machine. In this sense, Milosevic behaved just like the Bulgarian criminal groups in the first years of transition. He stood both at the "entrance" and at the "exit" of the Serbian state. I absolutely agree with Mr. Minchev,

who mentioned in his speech that one of the major threats from criminalization of the region would be the decentralization of the structures controlled recently by Milosevic.

According to me, if we are to imagine what the interests of organized criminal groups will be in the Balkans and in Yugoslavia in particular, we just have to recall how Bulgaria looked like in the period 1991-95. There will be some differences of course.

There are five basic types of organized crime activities, which characterize Balkan mafias. First, this is the production and trafficking in drugs, fuel, cigarettes, arms, illegal CDs, white slaves trade, the traffic in illegal emigrants, and the already "traditional" blackmailing, car stealing and road robberies.

Currently, an intricate process is taking place that is directly related to NATO involvement in Kosovo. This is the flourishing of the Albanian gangs and in particular the Kosovar ones. They are generally referred to "the Albanian Mafia", despite of the existence of different clans. The Kosovar Mafia is becoming much stronger, which according to me, under the "lit" of the international forces discovered a protected territory. Anyone who has been in Kosovo knows that there are no state institutions, no car plates. It is full of brothels and it is just a criminal territory, and I really doubt that it can be put under control within the next three or four years, despite the presence of international forces.

The other dangerous process, which is very indicative, is that the Albanian mobs overtook drugs trafficking. Quite naturally this is process commenced with the first wave of Albanian immigrants to Turkey fifteen or seventeen years ago. Traditionally illegal narcotics trafficking on the Balkan route was under the control of Turkish-Kurdish groupings. Now the dominating factors are Albanian clans. Just for comparison, in a report by Dr. Alexander Politti, advisor to the Italian Ministry of Defense, Albanian clans

hold 80% of the traffic in drugs through Hungary, which passes through the Balkan route. For Bulgaria this percentage is about 60-65%. The interception of drugs this year clearly demonstrates the trends and the supremacy of the Albanian mafias in this business.

Most observers content that most of the world notorious mafias are present in the Balkans. Cosa Nostra, the Ndrangheta and the Russian Mafia, by tradition, as Ukrainian, Serbian, Montenegrin ones have interests here. And what is peculiar, even the Chinese triads are present. By the way, this phenomenon again stems from the crisis in Yugoslavia, because Milosevic brought the first Chinese who came to the Balkans, here on the basis of an agreement with China.

In my opinion, these processes in Balkan organized crime have been facilitated to a great extent by the blindly reliance entrusted by the West to the KLA, despite the warnings of the secret services that KLA members have been involved in trafficking in drugs, control of prostitution, human beings trafficking.

At the moment, the problems ensue from the fact that Kosovo is still an area lacking any institutions, no police, no political system and these are the most favorable conditions for criminal groups. Under the disguise of ethnic concerns an intricate business has been started: trading in real estates left by Serb refugees. A number of murders, which were claimed to be ethnically motivated, were in fact based on a purely economic interest.

I am focusing on the Albanian Mafia because it was underrated for many years, especially in Bulgaria. But states like France, Switzerland, the Czech Republic have already suffered its cruelty. As an example I would like to mention that in the first half of 1999 in Milan there were six skirmishes between Mafia gangs — five of them were instigated by the Albanian Mafia.

After the fall of Milosevic there is one criminal “state” in the region and it is called the Western Balkans. It includes Western Macedonia, Albania, Kosovo and Montenegro. After the fall of Milosevic Yugoslavia will join those areas of instability. The purges in the Serbian underground world took place at least half a year before Milosevic was ousted. Since mid 1999 until now a number of demonstrative murders were committed in Yugoslavia, the greater part of them dubbed “political”. But the truth is that the people who were shot dead — not only Arkan, but a number of underground bosses, were connected to Milosevic and that is why were killed ostentatiously for edification. This indicates that those power decentralization policies in the criminal world, which has been controlled by Milosevic, have started since that moment.

I personally don’t see any substantial efforts on behalf of the international community to put under some control those processes. The fact that the armed forces in Kosovo behave more and more like police forces fighting arms trafficking, shows that this will be a major problem of the Balkans, even in the light of Bulgaria’s aspiration to enter the Schengen space with a fresh face or to be the outer border of the Schengen zone. This is particularly the reason that organized crime would not like to see stability in the Balkans, but rather the opposite.

Organized crime is interested in the “pouring of money” by Western states in the region, but not in stability because otherwise they will be driven out. Having one’s own territory close to the heart of Europe is much better from the viewpoint of all national mafias. And they are in fact international, because the integration processes between them have started long time ago. There isn’t even a conflict on ethnic basis, in the sense that the Albanian gangs trade in quite a normal manner with Serbian or Montenegrin or Croatian gangs. The interest there is much more

clearly manifested and defined.

There is another peculiarity. The transportation corridors, which are of primary interest for the Balkan states, are almost seized by organized crime. The routes of these corridors are clearly determined and each of the mafias (as we call them, although this is not the exact term) claims its own definite zones of interests.

I expect a very serious development of the Balkans and we will have the whole picture after three or four years. I expect also a new outburst of conflicts. In fact, according to me, the major threat to Balkan stability will be organized crime and its interests here.

IS ETHNIC CONFLICT GOING TO DISAPPEAR?

Marin Lessenski
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 and International Studies**

Is the “democratization wave” in the region going to bring about the disappearance of ethnic conflict as a basic characteristic of the Balkans, respectively halting the process of disintegration of states, as a principle precondition for stabilization? The answer is “may be not”. As recently Veton Surroi (the publisher of *Koha Ditore Daily*) said: “Even if Mother Tereza were to be elected president of Yugoslavia, the Kosovar Albanians do not want to live in this state.”

Achieving minimum of security: stopping violence, as the existence of a formal democracy: free elections and multiparty system, etc, does not seem to yield the desired results. Conflicts

are being transferred to another dimension, but ethnicity seems to be the dominant force in shaping particular policies.

Two issues emerge when discussing this problem area. The first one, speaking in general, is: do the existing norms of international order provide a clear-cut answer to the question of accommodating “ethnically based differences” with the framework of existing states? In the perspective of security issues, this is actually the dilemma how to prevent the process of “Balkanization” (facing it again); that is to provide guarantees that fragmentation of existing states and violent change of borders will not occur.

The second issue relates to the relevance of the existing models of ethnic conflict regulation. In the light of the last events in the Balkans this refers to the impact of “democratization” as a mechanism for resolving ethnically based conflicts.

The existing international normative framework is contradictory. The principle of inviolability of borders, which underlies the basis of the European system, is formulated by the so-called Helsinki principles of the Organization for Security and Cooperation in Europe. On the other hand, the United Nations Charter stipulates for the “principle of self-determination.” (Article 1(2) and 55) and the right of the people to freely determine their political, economic and cultural status.

The conclusion from the last decades (since the end of the Cold War or the 1960s) is that stability of borders was due rather to geopolitical deliberations, than to applying the international order norms. The disintegration processes of Tito’s Yugoslavia confirmed the fact that the antimony between “self-determination” and “inviolability of borders” cannot be resolved in a normative debate. The conclusion from the establishment and recognition of new states on the remnants of the Socialist Federal Republic of Yugoslavia is that the existing borders between the different

republics were recognized and not the existing national (or ethnic) boundaries.

The two cases of international intervention — in Bosnia and Kosovo, demonstrate two different strategies of the West towards the Balkans. In the first case, the objective was to preserve the existing borders of the republic — the new, internationally recognized state. In the second case, *de facto*, prerequisites for secession of an integral part (a province) from Republic of Serbia were created.

In the perspective of realities on the ground, the application of the principle of self-determination established several risks to security: “spill-over” or domino effect; process of Balkanization, i.e. fragmentation of states into small, hostile to each other entities; “trapped minorities”, what is the case with Serbs in Kosovo; threats to the democratic processes — instrumental use of ethnic grievances by ethnic elites, aimed at secession from the host state; creation of small, nonviable units, which need constant external guardianship and aid.

The current conflict resolution strategy of the international community is based on “democratization”. In the long-term, this is the most sensible policy, but the experience from recent events indicates that the processes are much more complex.

After the elections in the Balkans — in Yugoslavia, Kosovo, Bosnia and Herzegovina, it is clear that democratization policies — free elections and election of pro-democratic parties, does not guarantee that ethnic tensions will be reduced or state disintegration processes will cease.

What happened during and after the elections in Yugoslavia? The Kosovar Albanians and the authorities in Montenegro ignored the presidential elections. Kostunica himself objected the local elections in the (still formally) Serbian

province. The Serb population in Kosovo did not take part in the elections. In Bosnia and Herzegovina the nationalist parties of Serbs and Croats won the votes and the Bosnian Muslim counterparts preserved a solid support. One of the serious objections to the Dayton Agreement has been that it institutionalized ethnic division and gave power to the three ethnic communities, including political representation, excluding in principle other communities.

The events from the last two months suggest that democratization policies instead of overcoming bring about strengthening of ethnic divisions. Hence, there is a process of “territorialization of politics” in the words of Jaques Rupnik and it seems inevitable that consolidation of democracy will be accomplished in territorial-political units, formed on the basis of “ethnic” or “national” denominators.

The admissible options for conflict resolution could be change of borders: secession/separation or “self-determination”. In the latter, the conundrum “who are the people and in what territorial unit?” has to be resolved. Not less difficult to consider is the dilemma between granting collective or individual rights. There are claims that group rights often bring about violation of individual rights, as the minority “encapsulates” itself and the state cannot intervene as mediator — “blocking of the state” as was the case with former Yugoslavia.

The canton model employs the principle of subsidiarity and the units are formed on ethnic principle. Non-violent approaches to ethnic conflict resolutions vary, but before considering them, a clear definition of the problem should be made: is it intolerance on behalf of the states or there is upsurge (i.e. instrumental use of grievances) on behalf of the minority population.

The basic questions facing Bulgarian position are the following. In what cases and what are the limits to independence aspirations in the neighboring countries, taking into account the timing of the processes? A general answer suggests that as a basis for developing relations in the region, a firm stand against unsound demands and violent change of existing borders should be maintained. The “protectorate forms” of governance (Bosnia and Kosovo) should be retained until there are enough proofs that 1) there are guarantees for individual rights of the citizens; 2) functioning institutions have been established, not only of democratic representation, but also of a state, which is able to implement political decisions taken. This will be also a guarantee, that the creation of a “criminal state”, which would generate criminality and insecurity, will be prevented.

PANEL II:

***PROBLEMS OF DEVELOPMENT.
STRATEGIES AND MECHANISMS
OF REGIONAL COOPERATION***

**EU PLANS FOR THE WESTERN
BALKANS AND BULGARIAN POLICY**

Nickolay Mladenov
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I would like to talk about an initiative, which I hope would not follow the destiny of the Royaumont process. I would talk about the EU initiatives related to Southeastern Europe and the Western Balkans in particular. First, I will draw your attention to the West Balkans Association and Stabilization Process. Second, I will explain its importance for Bulgaria. Third, I will speak about the priorities of Bulgaria.

All initiatives related to the Southeast European region are difficult to be implemented because of its non-homogeneous character. There are at least five types of states and state-like formations in the Balkans. Analyzing them from the EU perspective these are: Greece, which is EU member state; Bulgaria, Slovenia and Romania, which are negotiating for EU accession; Turkey, which also applies for EU membership, but does not hold negotiations; Macedonia, Yugoslavia, Bosnia, Croatia and Albania, or the so-called Western Balkans, take part in the EU Association and Stabilization Process. There are some division within this group of states — Macedonia has just concluded the negotiations for signing the EU Association and Stabilization Treaty; Croatia is on its way to start such negotiations; Albania and Bosnia will also start negotiations in near future. Kosovo, a state-like formation, has no clear status and future. From this perspective, it is quite difficult to formulate an integrated external policy to be applied to all these extremely heterogeneous states with quite heterogeneous development perspectives.

In order to find a basis of its regional policy, the EU starts the so-called Association and Stabilization Process for the countries from the Western Balkans. The process is the first EU attempt to formulate an integrated policy towards the Western Balkans — a policy that would underline political and economic cooperation as well as the EU mechanisms for providing support for the ongoing reforms within those countries.

It is asserted that the process offers to the countries from the Western Balkans the European perspective — a quite unclear and flexible notion, which, on one side, has to reassure the Western Balkans that one day they will be able to become EU member states, and on the other side, to reassure the EU member states that, in fact, European perspective does not mean anything concrete. The EU proposes Association and Stabilization Treaties

to be signed between the EU member states and the countries from the Western Balkans. These treaties include at least five elements, which underline the development of the cooperation among those states and the EU as well as the cooperation among them within the framework of the region.

There is a requirement in the treaties noting that the states have to cooperate for resolving problems of common interest and for establishing a free trade area. They have to cooperate with the neighboring countries that have structured relations with EU — these are Bulgaria, Hungary, Romania and Slovenia. Thus, the treaties establish a general framework of the EU support for the ongoing reforms in these countries.

Drawing some lessons from the Association Agreements with Central European countries, Brussels has included in the Association and Stabilization Agreements with the Western Balkans countries a new requirement for granting funds at different phases of the process. In order to assess a phase of the process as practically implemented, the country should have created certain practices, should have adopted specific legislation, harmonized with the one of the common market and of the EU in general. That is why, the EU strategy towards the Western Balkans is more complex and more difficult to implement than the EU policy towards Central Europe.

If we look at the trade chapter of the treaties, it becomes clear that they have a more liberal regime than the regime that was offered to the Central European countries. This regime permits a longer period of local industries protection and a quicker liberalization of the European markets for them. All this is in a very conditional mode as the only one country that has already signed such agreement is Macedonia. There will be different modifications of the agreement for the different countries.

Put under strong pressure, the Commission took a historic decision endorsed by the member states in the summer of 2000. The decision postulates unilateral liberalization of the EU trade with respect to the Western Balkans. In the present, about 99% of the Western Balkans trades with the EU are already liberalized.

There was a serious pressure against this decision in Europe because it sets a precedent that can be wrongly interpreted by the EU applicant countries. Central European countries that are now holding membership negotiations have a strong interest in the field of industry and agriculture and could set more requirements in their talks with Brussels. Some difficulties could also appear within the WTO negotiations because a precedent has been created concerning the Western Balkans. A lot of member states: initially France, then also Spain, Portugal and Italy to some extent, did not accept such decision because it provides trade liberalization for the Western Balkans countries in fields of crucial importance for them.

Decision's upholders maintained that there was no problem in adopting it because the EU import from the Western Balkans accounts for less than 1%. These countries are not able to seriously overleap this 1% and to threaten EU producers, no matter how intensive is the liberalization.

To a great extent, the decision was also of crucial importance for Bulgaria because of its extremely straight and proper stand. Bulgaria supported those preferences declaring its ambition to play the role of a source of stability and development in the Western Balkans.

Why is this EU policy so important for Bulgaria? Firstly, under its EU association status and its EU accession negotiations, Bulgaria has no right to free trade agreement with countries, which have not such agreement with the European Union. Hence, the negotiations between Bulgaria and EU on Foreign Affairs Chapter

were slowed. The parties concerned expected the final agreement between EU and Macedonia for defining the specific requirement for transitional periods regarding Bulgaria's agreement with Macedonia. In general, the establishment of a similar framework of the relations between the Western Balkans and the EU is important for the process of trade liberalization between the Western Balkans and the other countries in the region.

Second, the highly acclaimed *European perspective* permits our country to develop its relations with the Western Balkans in the light of Bulgaria's accession to the EU. In the course of the visa debates Chief Negotiator Kisiov as well as Prime Minister Kostov emphasized that Bulgaria would not impose visa requirements on the countries with *European perspective*. At present, such countries are Romania and Macedonia.

Which are the challenges of the Association and Stabilization Process? On the first place, this is again the European perspective. None of the provisions of the treaty between EU and Macedonia lay the legal ground for Macedonia considering itself an applicant for EU membership. It was already pointed out that the EU has to provide Western Balkans with clearly formulated European perspective, which would support economic and political reforms and the pro-Western oriented political elites in these countries. Such perspective would bring about more security and stability not only in the Western Balkans but also in Southeastern Europe as a whole. Unfortunately, all this has not happened yet. However, if the Western Balkans countries succeed in meeting the Copenhagen criteria, EU membership will become a real perspective for them all.

Secondly, a lot of people estimated the process as an attempt for restoring Yugoslavia from Zagreb to Tirana, including Albania and excluding Slovenia. This perception is provoked by the great

attention paid to the regional cooperation within the Western Balkans in the fields of trade, reforms in general and solution of different problems resulting from the wars in the last decade. This perception was quite strong in Croatia, where the new government felt itself as closed in a wrong conceptual framework regarding the EU. Croatia insists on being integral part of the applicant states, rather than part of the so called “problem states” from the Western Balkans. This fact postponed the beginning of the negotiations between EU and Croatia.

The process does not create a radically new framework for the establishment of lasting stability in the Western Balkans. It does not offer any custom or monetary union perspective or any essential guarantees for fast economic development of the region. For the present, such guarantees are impossible because the region is quite heterogeneous, the EU member states are also quite different and hence, it is very difficult for them to reach an agreement on a common policy. That is why, all the results achieved till now are a significant success.

Looking at this part of the process, which is related to the trade issues, one can find some elements that still have not been carried out. At the same time, their implementation would contribute to a faster and more effective integration of the Western Balkans into the pan-European free trade area. The European Institute in Sofia together with the Center for European Policy Studies, Brussels elaborated in the summer of 2000 a special report entitled “A Comprehensive Trade Policy Plan for the Western Balkans”. The report assesses three different stages in the process of Western Balkans integration into the pan-European zone. First, this will be achieved through asymmetric trade liberalization between the Balkan countries and the EU zone (what has already happened). Second, through liberalization of trade within the Western Balkans

region as well as between this region and the Central European states by integrating the first group in CEFTA. Third, through the establishment of a free trade area in the Western Balkans, EFTA and Turkey. In this context, these proposals seem much more realistic and applicable at this stage than the establishment of Balkan customs union.

What does all this mean for Bulgaria? As it was already mentioned, the main foreign policy priority of Bulgaria is the EU and NATO integration. In this context, if EU does not possess any underlying principles and framework defining its relations with the Western Balkans, it would be very difficult for Bulgaria on its way to the EU to benefit from the development of its relations with this region or from the support it provides to these countries. On the other side, without a serious EU institutionalized commitment to the Western Balkans development, fighting organized crime and terrorism could not be effective.

The fact that the Association and Stabilization Process consists of different stages, where funds granting depends on the implementation of certain requirements, is also a specific guarantee for the effective realization of the reforms in the Western Balkan countries. Recently, IMF worked out a report entitled “The Importance of EU Membership Perspective for the Economic Reforms in the Applicant Countries”. This document reports that the European perspective has played the role of a special guarantee for the development of reform ideas and movements in Central Europe and has also stimulated the change, which they so eagerly needed on their way to the EU. The report, however, concluded that if one day EU says to Russia: “Welcome to the EU”, the result would be just the opposite. Such invitation would bring to the bottom all reformists in the country. In order to be a genuine stimulus for the realization of reforms, the European perspective

has to be a real one. In Russia it is not a real perspective and that is why it can not be a stimulus. In the Western Balkans, however, if the European perspective is well formulated, it could incite the necessary reforms. From this perspective, the economic and social development in the next few years is of key importance for the reformation processes in the Western Balkans countries. As a SEE country holding EU accession negotiations Bulgaria could be a good example. Bulgaria has shown what kind of results can be achieved when there is a well formulated will for reforms, political consensus concerning the major priorities, and a realistic European perspective. The establishment of the Association and Stabilization Process creates the conditions necessary for the development of such regional policy that will help our countries in their way to the European Union.

THE STABILITY PACT FOR SEE: JUST ANOTHER INTERNATIONAL INITIATIVE FOR THE REGION OR SOMETHING MORE?

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During the last eighteen months the Stability Pact was quite a lot discussed and assessed from the perspective of different view points and in the light of different interests. Various evaluations were given and even extreme opinions were expressed — as positive ones as well as ones that totally ignored the significance of the initiative.

This text makes no claim to use original approach in analyzing the Stability Pact meaning and principles. It would rather outline some of the major mistakes made in the implementation of the Stability Pact as an initiative aiming at intensifying democratic processes in Southeastern Europe, fostering economic development and stimulating the cooperation between the countries in the region.

* * *

The Stability Pact for South Eastern Europe was launched on June 10, 1999 to create conditions for lasting peace and stability in the Balkans. It was designed as a long-term strategy to promote economic stabilization and integration of the Balkans to the rest of Europe. The initiative provoked high expectations and caused great enthusiasm among the population in the region. Eighteen months later, the Western countries estimate the development of the initiative as controversial and not so successful; local disappointment and pessimism are the prevailing moods among the population in Southeastern Europe. What is the reason for that?

It was the Kosovo crisis that made the international community fundamentally change its policy towards the SEE region. Since the fall of the Berlin wall, it was the first time when the West has applied an integrated political approach aimed at resolving the existing problems in the Balkans. As a peacemaking political initiative with the necessary flexible structure, the Stability Pact was seen as a significant contributing factor to regional stability and security, as a mechanism for the accumulation and implementation of strategies for the overall stabilization and development of the region. Moreover, the Stability Pact pretended to be the first long-term policy of conflict prevention that addresses the looming conflicts before they erupt — a policy that replaced the prevailing perception of conflict management.

Gradually, the initially set priorities have been replaced by a vision, which describes the Stability Pact primarily as an initial donor program. Eighteen months after the Stability Pact's strategy was adopted, it is found that there is no serious progress in the practical implementation of the initiative's goals and the accorded projects. Moreover, a strong discrepancy between the practical effects and the initial high expectations and hopes can be found. In fact, the international community has missed to seriously assess the reasons that underlined the failure of the previous ambitious international initiatives aiming also at the stabilization and development of the South Eastern Europe. Among these international projects for the region are:

First, it was the Southeastern European Cooperation Initiative (SECI) initiated by the United States and launched on December 6, 1996. It aimed to enhance regional stability, encourage regional cooperation and facilitate the SEE access to European integration. SECI was designed as a free forum for discussion of common regional economic and environmental problems calling for concerted action¹. Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Hungary, Macedonia, Moldova, Romania, Slovenia and Turkey participate in the initiative and Montenegro is an observer. Despite the initial ambitious purposes, that are identical to the Stability Pact objectives, SECI has not produced any practical results that could significantly contribute to their achievement. The initiated projects within the initiative are mainly focused on combating transborder crime, infrastructure improvement of main transportation corridors, facilitation of international road transport among others.

South Balkan Development Initiative (SBDI) announced by President Clinton in 1995 is another important regional initiative.

¹ See <http://www.unece.org/seci>

It has been designed to help Albania, Bulgaria and Macedonia further develop and integrate their transportation infrastructure along the east-west corridor that connects them. An overall aim of the initiative was to use the specific experience of regional cooperation on transport infrastructure development in fostering more general regional cooperation and economic integration.² So far, the major practical result of SBDI implementation was the *East-West Corridor Economic Feasibility Study* — feasibility study on the east-west corridor between Bulgaria, Macedonia and Albania.

Royaumont Initiative is an EU initiative launched in 1995. It focused on enhancing Stability and Good Neighborliness in SEE. The initiative is concentrated mainly on strengthening civil society structure, the establishment of effective channels of communication across national boundaries, on bilateral and multilateral level, and on promoting cross border understanding, long-lasting stability and peace, in general³. Similarly to the SECI development, however, the Royaumont Initiative progress is now associated with the funding of separate projects (in the NGO sector mainly), rather than with some achievement of the initially set major priorities.

All these regional initiatives committed one and the same error — they missed to develop a general integrated strategy for the stabilization and development of the region, to which the separate projects to be submitted. The Stability Pact has also chosen a wrong line of realization and development of its objectives. In this context, the following mistakes could be outlined:

The *first major mistake* was that some Western politicians used to refer to the Stability Pact as a Marshall Plan for the Balkans. Comparing both initiatives, however, they missed to take into

² See <http://www.tda.gov/region/sbdi.html>

³ See <http://www.royaumont.org>

consideration a very important detail: the major aim of the Marshall Plan was to create an appropriate environment necessary for the development of an economic activity, for rebuilding political confidence and strengthening the cooperation among the Western European countries, i.e. the major aim was the establishment of adequate and effective democratic institutions.

In the Balkans, this misperception of the Stability Pact created over-optimistic hopes and expectations. There was a general belief that this political initiative would be a kind of a charity fund pouring money into the region. A strong conviction was created that the Pact would not only support the implementation of some strategic aims and priorities of the Balkan countries but would also provide an immediate financial aid for the reforms conducted in different public spheres.

Just a few months after its announcement, however, it became clear that the Stability Pact is in fact a document outlining principles and norms of dialogue and cooperation among the Balkan countries. From a methodological point of view, it does not contain any clear strategy and practical guidelines of concerted efforts to reform and modernize the region. The Regional Funding Conference in Brussels proved that the initial expectations for influx of money and aid would not happen. First, most of the funds were then allocated as various forms of credit and loans. Second, a serious gap appeared between the initially set goals of the fundraisers and the interests and priorities of the donor countries and organizations by directing most of the money to the second Working Table along infrastructure projects: more than 81% of the funds were allocated to the Second Working Table; more than 63% of the funds were directed just to infrastructure projects.

Instead of developing integrated strategy for the stabilization and development of the region, the major and maybe the only one

practical result of the Stability Pact till now is the collection of a certain amount of money allocated to different physical infrastructure projects. Not enough funds were directed to build stable and working institutions and effective and functional public administration. Thus, the *first mistake* was the lack of a stable institutional framework capable to guarantee the effective utilization and appropriation of the allocated funds, and the lack of clear procedures and mechanisms for control over the distribution and spending of aid funds, doom to failure the whole initiative. There will be no stability in SEE unless an effective institutional system is capable to resist organized crime and clan economics, to prevent inter-communal clashes, to guarantee and enforce human rights.

The *second major mistake* — the international community has found in the Milosevic regime and the non-participation of Yugoslavia in the Stability Pact a good excuse for delaying the initiation of the major projects of crucial importance for the entire region. In the last 18 months, the Pact missed to support practically the establishment of effective institutions, to sustain the economic development of the Balkans as well as to elaborate adequate and realistic strategies in the fields of security and stability of Southeastern Europe. So far, the Stability Pact is associated mainly with a bad organization, bureaucratic approach, low effectiveness and a lack of coordination between the international institutions. The only one practical outcome of the numerous meetings and sessions is the collection of all so far available projects related to the region of SEE as well as the establishment of some contacts at state and expert level.

The *third major mistake* was that proclaiming Milosevic regime as a main source of instability and insecurity in the region, the international community — the Stability Pact, respectively — focused all their efforts basically on ousting Milosevic from power

and missed to define the major challenges and problems of the region entering the political agenda just after the changes in Belgrade. These problems that are to be solved are as follows:

- To take measures against the possible submission of the Serb economy by powerful mafia structures trying to redistribute the spheres of influence after the fall of Milosevic. It is of extreme importance this process to be put under control. Otherwise, the negative effects could easily spill over into Serbia neighboring countries provoking further criminalization of the entire region.

- To prevent further enlargement of the Albanian mafia structures in Kosovo, Western Macedonia and Albania, which are based and rely on strong clan solidarity and loyalties. These criminal networks dominate international channels for illegal trafficking in drugs, weapons, and people, providing them enormous profit.

- To remove the still existing premises for new inter-ethnic conflicts in the Balkans. So far, the Stability pact has failed to create adequate stimuli for settling the territorial problems creating the impression that the redrawing of the Balkan map has not been concluded yet. The initiative does not give any clear vision or strategy for practical regional cooperation aimed at avoiding future conflicts.

Despite all these mistakes and shortcomings, there are some positive tendencies that have to be pointed out. In general, the Stability Pact provides a good chance to start an open and productive dialogue, to develop multilateral cooperation in SEE and also to join the efforts and the potential of different countries to curb negative trends and developments. In this view, it is of

common interest to the countries in the region to adopt the already established framework as well as to participate in the implementation of different initiatives for regional cooperation. Moreover, the inclusion of Serbia into the reconstruction process and the existing development schemes will inevitably lead to a more stable regional approach in the stabilization and modernization of the entire region.

The last ten years of violence, ethnic conflicts, reform failures, and unsuccessful international initiatives for the SEE have proved that coordinated and consolidated actions on regional level to improve negative practices and tendencies in all major areas of reform could bring about greater impact and change than any isolated local effort. That is why, all parties concerned have to unite their efforts to bring the initiative back to its initial principles and goals and to look for its optimal dimensions. Public debate has to be initiated aimed at achieving a consensus and the establishment of a clear political vision for the future — a vision that is able to coalesce around itself the countries from the region as well as the international community.

BULGARIA AND THE BULGARIAN ECONOMIC INTERESTS IN THE NEW ENVIRONMENT OF THE BALKANS

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The Bulgarian economic interest imperatively should be examined within the perspective of development. The economic development however is still being a fiction mainly because of the considerable loss in competitive advantages in the world economy due to the social, political and economic transformations commenced in 1990s.

The crisis and the disintegration processes in former Yugoslavia as well as the imposed international embargo had an extra negative impact on the new orientation and specialization of the Bulgarian economy.

An additional impediment turned out to be the criminalization of the economies in the region.

On the background of its limited economic capabilities Bulgaria is facing a tough challenge — to develop itself. If we assume that in the past surviving has been one of the implicit aims of the economy the development is the imperative of nowadays. The prospects for the development of the Bulgarian economy are obscure and it is because of their deficiency that they should be analyzed accurately and implemented effectively, in view of the future in particular.

After lifting the international embargo against Yugoslavia the impediments to the Bulgarian economy came down. The point however is what the gains could be.

Rethinking the new situation it is substantial to define the contents of the Bulgarian economic interests and the dimensions where their implementation could be projected.

In terms of contents, the Bulgarian economic interests could be considered mainly in the context of new technologies, communications, transit of energy resources and export of electricity. These are some of the very few sectors where the country could achieve competitive advantages.

The progress of information technologies and information society enables the economic development overcoming the limits of resource insufficiency and utilizing such competitive advantages as highly qualified working force.

In the sphere of communications the interests of Bulgaria require modernization of infrastructure, issuing a license for a second GSM operator and the privatization of the monopolist state-owned Bulgarian Telecommunication Company BTC by a strategic investor.

Transiting the energy resources, Bulgaria is connected with two of the projects for building an oil pipeline through the region. Two out of the three contesting routes pass through Bulgaria. Besides that, the Russian Company Lukoil, which owns the Burgas Refinery Neftochim as well as refineries in Romania and Montenegro, is also interested in refineries in Serbia and Croatia.

The export of electricity remains a strategic priority for Bulgaria. In view of the closure of the first two reactors of Kozloduy Nuclear Power Station the issue of building a new nuclear power station in Belene became popular.

How does economic development refer to regional cooperation and European integration?

As a matter of dimensions, Bulgarian economic interests could be projected both at regional and EU level.

During the recent years several EU countries (Germany, Belgium, Italy, Greece) emerged as leading foreign trade partners of Bulgaria. The pending issue however is how competitive Bulgarian economy is and whether it could cope with the pressure of the exacting demand of the European market, provided that in the country factors for stimulating competitiveness are still lacking.

The second dimension of the Bulgarian economic interests is the regional one. In the course of previous years the economic performance of Bulgaria in the region was quite poor. Of course, it was partly predetermined by the circumstances in Yugoslavia and the international embargo in particular, which caused direct as well as indirect damages, breeding up the “black” and “gray” economy in the region.

It is unwise and irrational for Bulgaria to pursue incoherent policies towards the region and towards the EU. Greece, for instance, deals quite well in accordance with its EU membership by pursuing active regional policy including economic expansion. The Greek economic interests have been expanding consistently in the Balkans — in Bulgaria, Romania, Serbia, Montenegro, Macedonia and Albania. The Greek presence could be considered strategic as far as it holds shares in key sectors, such as telecommunications, banking, food processing, and the heavy and chemical industries.

The interests of other countries are also presented in the Balkans and in Bulgaria particularly. In this category countries which are major foreign investors in Bulgarian economy and important trade partners of Bulgaria could be pointed out.

Analyzing 1999 and 2000 data, we witness a coincidence of major foreign investors in Bulgaria and its leading trade partners. The aftermath is that there is a rising communication

and exchange between these countries and Bulgaria. Germany, Greece, Belgium and Italy are in the group of the first four investors in Bulgaria as well as in the group of the first four trading partners.

As far as Bulgaria does not possess enough resources to pursue its economic interests it is necessary to seek the crossing points of Bulgarian economic interests and the interests of the partner countries. It is an option to broaden up the economic perimeter accessible for Bulgaria. In these terms some aspects of the Greek economic expansion in the Balkans could be utilized for the purpose of developing Bulgarian economy. It is especially important in such areas as telecommunications, banking and energy sector.

Searching similarities or common benefits of Bulgarian and Greek economic interests should envisage extending regional economic cooperation — towards Serbia, strengthening cooperation with Macedonia, which is far beyond the expected results. First results of the concluded agreement for free trade area are expected not earlier than 2002 — 2003.

Analyzing Bulgarian economic interests one can not ignore the role of Russia and the Commonwealth of Independent States, which are the leading importers in Bulgaria, according to data from January to August 2000. In this context it should be noted that the transit route for Caspian oil through the region is to be chosen soon. This fact has a lot in common with Bulgarian economic interests because two of the project routes pass through Bulgaria (Bourgas — Alexandroupolis and Bourgas — Vloras).

In conclusion, I would like to emphasize that in the realities of modern interdependence the accord of economic interests and achieving a kind of coherence between the interests

of weaker and the interests of stronger subjects of international relations is a prerequisite for development. One of the possible approaches to this end is modelling the forms of regional economic cooperation and European integration in search of the optimum balance for Bulgaria.